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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,	:	
	:	**05 Civ. 5325 (LAP)**
Plaintiff,	:	**ECF CASE**
-against-	:	
JOHN HOULDSWORTH and RICHARD NAPIER,	:	**FIRST AMENDED COMPLAINT**
Defendants.	:	

Plaintiff Securities and Exchange Commission ("Commission"), for its First Amended Complaint against defendants John Houldsworth ("Houldsworth") and Richard Napier ("Napier") (collectively, the "Defendants"), alleges as follows:

SUMMARY OF ALLEGATIONS

1. This case involves the conduct of Houldsworth and Napier, two senior executives of General Re Corporation ("Gen Re"), and other senior Gen Re executives in aiding and abetting a securities fraud committed by American International Group, Inc. ("AIG"). Houldsworth, Napier and others at Gen Re helped AIG structure two sham reinsurance transactions that had as their only purpose to allow AIG to add a total of $500 million in phony

loss reserves to its balance sheet in the fourth quarter of 2000 and the first quarter of 2001. The transactions were initiated by AIG to quell criticism by analysts concerning a reduction in AIG's loss reserves in the third quarter of 2000. These transactions made it appear as though AIG had increased its loss reserves in the fourth quarter of 2000 and first quarter of 2001 by a total of $500 million, which was not true. The economic substance of the two transactions was that Gen Re was paying $500 million in premiums in return for AIG reinsuring a $500 million risk. In other words, the transactions had no economic substance, amounting to a round trip of cash; but they were designed to, and did, have a specific, and false, accounting effect. Without the phony loss reserves that AIG added to its balance sheet, AIG's financial results in both quarters would have shown further declines in AIG's loss reserves. Instead, as a result of the transactions, AIG's financial results showed a false increase in reserves that AIG touted in the Company's quarterly earnings releases. In a press release dated March 30, 2005, AIG admitted that the accounting for these transactions was improper and would be corrected. In its 2004 Form 10-K filed with the Commission on May 31, 2005, AIG admitted that the transactions were "done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer" to qualify as reinsurance that would have allowed AIG to add loss reserves to its financial statements.

VIOLATIONS

2. By virtue of the conduct described herein, Houldsworth and Napier are each liable, pursuant to Section 20(e) of the Exchange Act, as an aider and abettor of AIG's violations of Sections 10(b), 13(a), 13(b)(2) and 13(b)(5) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2) and 78m(b)(5)] and Rules 10b-5,

12b-20, 13a-1, 13a-13 and 13b2-1 [17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-13 and 240.13b2-1].

JURISDICTION AND VENUE

3. The Commission brings this action pursuant to the authority conferred upon it by Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)], seeking a judgment:

a. permanently restraining and enjoining Houldsworth and Napier from engaging in future violations of the federal securities laws;

b. requiring Houldsworth and Napier to disgorge any ill-gotten gains and to pay prejudgment interest thereon;

c. requiring Houldsworth and Napier to pay civil money penalties pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)]; and

d. permanently barring Houldsworth and Napier, pursuant to Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)], from serving as an officer or director of any issuer that has a class of securities registered under Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

4. This Court has jurisdiction over this action pursuant to Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

5. The Defendants, directly or indirectly, have made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. Certain of these transactions, acts, practices and courses of business occurred in the Southern District of New York, including,

among other things, portions of the negotiations concerning the transactions described herein. AIG also has its headquarters in the Southern District of New York.

THE DEFENDANTS

6. **Houldsworth**, from approximately May 1990 until approximately June 2001, was the CEO of Cologne Re Dublin ("CRD"), a subsidiary, located in Dublin, Ireland, of Cologne Re Germany, which is a subsidiary of Gen Re. In 1998, he additionally became the Chief Underwriter for a Gen Re business unit called Alternative Solutions and was located part of the time in Gen Re's Stamford, Connecticut headquarters. Houldsworth is licensed as a Chartered Accountant in England. On June 6, 2005, Gen Re terminated Houldsworth after it learned that Houldsworth "had agreed to plead guilty to a federal criminal charge of conspiring with others to misstate certain [AIG] financial statements and entered into a settlement agreement with the [Commission] related to such matters." Houldsworth resides in Ireland.

7. **Napier** was a Senior Vice President at Gen Re from 1992 until he was terminated on June 8, 2005. He has held various positions at Gen Re since 1977. Napier has been the individual at Gen Re responsible for Gen Re's relationship with AIG since about 1990. Napier resides in Wilton, Connecticut.

BACKGROUND

Overview of the AIG/Gen Re Transaction

8. This case is not about the violation of technical accounting rules. It involves the deliberate or extremely reckless efforts by senior corporate officers of a facilitator company (Gen Re) to aid and abet senior management of an issuer (AIG) in structuring transactions, having no economic substance, that were designed solely for the unlawful purpose of achieving a specific, and false, accounting effect on the issuer's financial statements. The only economic benefit to

either party of the transactions at issue was a $5.2 million fee – agreed to in an undisclosed side agreement – to be paid by AIG to Gen Re for putting this deal together. The "premiums" purportedly due AIG under the terms of the bogus transaction documents were merely window dressing and were in fact pre-funded by AIG to Gen Re in another undisclosed side agreement. Gen Re and AIG also created a phony paper trail to make it appear as though Gen Re had solicited reinsurance from AIG when, in fact, AIG had solicited the deal to manipulate its financial statements.

9. On October 26, 2000, AIG issued its third quarter earnings release showing an approximate $59 million decline in general insurance reserves. The release drew criticism from market analysts. At least two analysts downgraded AIG after the earnings release, and AIG's stock price dropped 6 percent (down $6.06 to $93.31) on October 26, 2000.

10. Concerned about analyst reaction to AIG's declining reserves and the resultant negative impact on AIG's stock price, on or about October 31, 2000, AIG's then Chairman (the "AIG Chairman") called Gen Re's then CEO (the "Gen Re CEO") to solicit help in structuring a transaction between AIG and Gen Re that would transfer $200 million to $500 million of "loss reserves" to AIG by year end through a reinsurance arrangement between AIG and Gen Re.

11. Gen Re had a longstanding relationship with AIG, which was Gen Re's largest customer. In conversations with the Gen Re CEO following their initial discussion, the AIG Chairman made clear that, while he was looking to increase AIG's loss reserves, the transaction he was contemplating was one that would *not* require AIG to take on any actual insurance risk. The Gen Re CEO understood that what the AIG Chairman was describing was not a bona fide reinsurance transaction, which would have required that AIG assume an actual insurance risk

from Gen Re, but rather a transaction that would only look like reinsurance for AIG's accounting purposes.

12. In early November 2000, in consultation with Gen Re's then CFO, Elizabeth Monrad ("Monrad"), and Napier, the Gen Re Senior Vice President responsible for Gen Re's relationship with AIG, the Gen Re CEO determined to do the deal the AIG Chairman was requesting.

13. The AIG Chairman assigned the AIG Vice President of Reinsurance to act as point person with Gen Re team, which consisted of Napier, Monrad and, soon after the discussions began, Houldsworth, the CEO of CRD, the Gen Re subsidiary located in Dublin, Ireland that Gen Re ultimately used to effect the AIG transaction.

14. The Gen Re CEO instructed the Gen Re transaction team to keep the transactions confidential. In an email to Houldsworth, Monrad, Napier and others, the Gen Re CEO directed: "Note to all – let's keep the circle of people involved in this as tight as possible." Similarly, the cover note to the underwriting file for the Contracts states:

> Specific guidance has been received from [the Gen Re CEO] that this file is to be kept confidential and consequently to be kept locked in [a CRD underwriter's] desk at all times. Permission to review this file is to be sought from the [CRD underwriter], [CRD CEO] John Houldsworth or [the CEO of Cologne Re Germany]. In CRD the only personnel authorized to review the file are [the CRD underwriter], John Houldsworth and [Houldsworth's assistant].

15. Over a period of approximately two months, Houldsworth, Monrad, Napier and others worked with the AIG Vice President of Reinsurance to fashion two retrocession contracts between CRD and National Union Fire Insurance Company of Pittsburgh, Pa. ("National Union"), an AIG subsidiary, which became the vehicle for adding loss reserves to AIG's financial statements. In insurance parlance, "retrocession" is a transaction whereby a reinsurer

cedes to another reinsurer all or part of a reinsured risk it previously assumed (i.e., reinsurance of reinsurance). Under the two contracts, the first of which was effective December 1, 2000 (the "First Contract") and the second of which was effective March 31, 2001 (the "Second Contract") (collectively, the "Contracts"), National Union purported to reinsure CRD for a total $600 million in losses in exchange for CRD's payment of $500 million in premiums.

16. Although the First Contract had an effective date of December 1, 2000, the terms were not agreed upon until late December 2000 and no contract was signed by the parties until August 2001. Similarly, although the Second Contract had an effective date of March 31, 2001, it was not signed by the parties until September 2001. There was no specific termination date under either contract; each provided that it "shall remain in force and effect until the obligations hereunder have been discharged."

17. On the face of each reinsurance contract, National Union reinsured CRD for up to $300 million in losses ($600 million combined), which CRD "is or becomes obligated to pay under the Original Reinsurance Contracts written by [CRD]." The "Original Reinsurance Contracts" were listed in a Schedule attached to each of the Contracts and comprised six "underlying reinsurance contracts" that were previously reinsured by CRD.

18. According to the Contracts, CRD was obligated to pay National Union $500 million in premiums ($250 million per contract). Of the $500 million in premiums, $490 million was on a "funds withheld" basis (i.e., the money was never paid to National Union but was retained by CRD) and $10 million was "paid" to National Union, but, in fact, was pre-funded by National Union in a side deal that is described further below. On the face of the Contracts, AIG was assuming $100 million of risk over and above the amount of premium it was to receive. However, this extra $100 million of risk was pure fiction, added by Houldsworth, with the

knowledge and approval of Monrad and Napier, to give the appearance of risk transfer. All parties to the transactions understood that the total amount of loss AIG would actually be obligated to pay was only $500 million, which was the amount of premium it was receiving.

19. The written contracts also did not reflect the following side agreements developed by Houldsworth, Monrad, Napier and others with the AIG Vice President of Reinsurance: (i) AIG would pay Gen Re $5.2 million in fees for putting the deal together; (ii) in order to pay Gen Re its $5.2 million fee and pre-fund the $10 million in "premiums" CRD was obligated to pay to National Union, Gen Re and AIG commuted a separate, unrelated reinsurance contract – between Gen Re and another AIG subsidiary, Hartford Steam Boiler Inspection and Insurance Company ("HSB") – to mask the real reason for the transfer of funds between AIG and Gen Re; and (iii) Gen Re created a sham paper trail to make it look like Gen Re had solicited the Contracts, when in fact AIG had solicited the deal.

Reinsurance Accounting Principles

20. The sole purpose of these transactions was to try to make it appear as though Gen Re was purchasing reinsurance from AIG so that AIG could record loss reserves associated with the reinsurance contracts. Had this been real reinsurance involving a real transfer of insurance risk, AIG would have been entitled to record reserves in the amount of the loss that was probable and reasonably estimable. However, these were not real reinsurance contracts. Their purported terms were all undone in undisclosed side agreements. AIG assumed no risk, and the only economic benefit to either party was a $5.2 million fee that AIG paid to Gen Re for putting the deal together. Because the transactions had no economic substance, they should not have been accounted for at all. But even if some accounting for them was necessary, the transactions at best resulted in a liability owing to Gen Re and therefore should have been recorded as deposits

on AIG's books, i.e., money owed to Gen Re, which would have had no effect on AIG's reserves.

The Structuring of the Contracts and the Undisclosed Side Agreements

21. Houldsworth and Napier helped structure the transactions knowing that there would be no risk transfer and that AIG intended nonetheless to account for the policies as if there were real reinsurance. Indeed, the whole point of the transactions was to put reserves on AIG's books.

22. Napier was the Gen Re point person who dealt directly with the AIG Vice President of Reinsurance. The AIG Vice President of Reinsurance conveyed what the AIG Chairman wanted, and Napier then worked with Houldsworth and others, including Monrad, to develop an acceptable structure. Napier understood that the purpose of the transactions was to address analysts' criticisms of AIG's declining reserves.

23. On or about November 7, 2000, Napier circulated a memorandum to the Gen Re CEO, Gen Re's then Head of North American Operations, Monrad and three other high level Gen Re employees. The memorandum, which bore the subject line "MRG [the AIG Chairman] Reserve Project," attached an analyst's report dated October 27, 2000 regarding AIG's third quarter 2000 earnings release issued the day before. The analyst's report contained the following in the section on AIG's reserves:

> The market was disturbed by AIG's net reserve decrease of $59 million . . . . AIG has reduced reserves twice recently – in the second and fourth quarters of 1999 – and the market reacted badly then as well. AIG bounced back in both cases because (1) like today, the explanation for the reserve decline was reasonable and (2) more important, no "other shoe" ever dropped. We don't believe another shoe will drop this time either.

> We do care a lot about reserves, and if we saw a steady trend of unexplained releases during a period of premium growth, we'd definitely be concerned. But that's not the case here.

In his cover memo attaching this report, Napier wrote:

> Based upon [the analyst's] numbers, AIG reduced reserves $59m. It will be interesting to understand more about the $500m figure [AIG has] been using for [the proposed deal]. Perhaps [AIG is] planning for further releases in Q4 and are seeking a means to offset the cosmetic impact.

24. After initial discussions about how to structure the deal, Monrad and Napier turned to a Gen Re subsidiary in Ireland, CRD, to effect the transaction.

25. Houldsworth, in addition to being the CEO of CRD, was the Chief Underwriter for the "Alternative Solutions" business unit of Gen Re, which wrote so-called "finite" reinsurance policies that could be used to smooth earnings. In an email dated November 15, 2000 to Monrad and Napier, among others at Gen Re, Houldsworth summarized Gen Re's request to CRD to assist in the AIG transaction as follows: "can CRD provide a retrocession contract transferring approximately $500m of reserves on a funds withheld basis to the client with the intention that no real risk is transferred and that this may well be commuted or gradually reduced in a few years." Houldsworth also stated in the email:

- "[The] reserves [ceded by CRD to AIG] should be fairly stable."
- "We must maintain underlying client confidentiality and will not allow [AIG] to inspect our records or receive detail in loss reports of contract structures and loss profiles. . . . We must maintain our ability to manage our portfolio freely without interference or notification to [AIG]."
- "Given that we will not transfer any losses under this deal it will be necessary for [AIG] to repay any fee [(i.e., premium paid by CRD)] plus the margin they give us for entering this deal."

26. Contemporaneous handwritten notes by Napier regarding the proposed transaction also refer to a "non risk deal," a "side deal" to repay CRD its fee and premium paid to AIG and

that CRD "pay[s] AIG $10M fee [i.e., premium]; AIG pay[s CRD] $10M fee back + fee for deal."

27. In order to ensure that AIG would be able to record additional loss reserves through the Contracts, Houldsworth structured the Contracts so that they appeared to transfer significant risk to AIG even though all parties understood that $500 million in losses being transferred to (i.e., "reinsured" by) AIG/National Union involved virtually no insurance risk and would not qualify as reinsurance for accounting purposes. Indeed, on its own books, CRD accounted for the majority of the losses it was proposing to transfer as deposits, i.e., as money owed to CRD's insureds, and not as reinsurance. To make it appear as though there was risk transfer, Houldsworth proposed adding $100 million to the coverage limit.

28. In a telephone conversation between Houldsworth and Monrad on November 14, 2000, Houldsworth told Monrad about his idea to create the appearance of risk transfer: "I was thinking of doing something like a 600m, well they might not accept this, I presume they need risk transfer to put on the thing! So something like a 600m limit for 500m, obviously, underlying reserves 500m . . . . The only question is, in my viewpoint, clearly we got to have risk transfer in there."

29. Houldsworth and Monrad both knew, however, that AIG was looking for a no risk transaction and that there was virtually no risk associated with the losses they were proposing to have AIG reinsure. As they stated in the same conversation on November 14, 2000:

Monrad: So let's assume they take the deposit liability I will tell you any way we structure it yes it's got to look more like deposit because they are not really looking to take risks! Well I think if we spend a lot of time trying to figure out how to transfer 500m of risk, we won't get this deal done in the time they want.

Houldsworth: Yeah, I mean as you say, if there's enough pressure on their end, they'll find ways to cook the books won't they?! [Monrad laughs] It's no problem there, it's up to them! We won't help them to do that too much. We'll do nothing illegal!

30. In a conversation the next day between Houldsworth, Monrad and Napier, they again acknowledged the lack of risk transfer in the transaction and the need for a "handshake" deal between AIG and Gen Re:

Houldsworth: There is clearly no risk transfer. You know there is no money changing hands.

Monrad: [AIG] may have a tough time getting the accounting they want out of the deal that they want to do. . . . They are not looking for real risk . . . .

* * * * *

Napier: [W]hat would happen if we just did this where there was no risk? I mean we just charge them a fee for doing this deal.

Houldsworth: Well what I was thinking is if you know, we charge them, if we give them a fee on this, my idea would be for them to, they would have to come to you and say what that fee is plus some sort of margin, you must have agreed to give that to us before we will sign this deal, or at the same time as we sign this deal so you know, net, we get our margin and I think it's just the same thing, but I think to give them a deal with no risk in it and just charge them a fee you can assume their auditors are being pushed in one direction, but I think that's going too far. I think that's detail, you know they are going to come to that and if they suggest it, then fine, but I just can't see how on earth anybody, you know we can charge the 500m for a 500 limit and get them to book that as a reserve but I would be staggered if they get away with that.

Napier: Then the way to do this, if there is risk in this, the way to become whole requires [the AIG Chairman] and [the Gen Re CEO] to have a handshake.

31. After deciding on an initial structure for the transaction Gen Re would offer to AIG in response to the AIG Chairman's request, Houldsworth, Monrad and Napier decided it would be best to meet with their counterparts at AIG. In a telephone call on November 15, 2000 among Houldsworth, Monrad and Napier, Napier stated:

> So it just seems to me [that setting up a meeting at AIG is] the next step here and [the AIG Chairman's] calling daily on this. He's pretty excited about it so it would not be a problem to get a team of AIG people together in the next day or two [to discuss what Gen Re has come up with as the potential transaction].

32. Around late November or early December 2000, Monrad, Napier and another Gen Re executive met with the AIG CFO, AIG Controller, AIG Vice President of Reinsurance and others at AIG's offices and told them that Gen Re was accounting for the transaction differently than AIG intended to account for it since Gen Re had accounted for the underlying portfolios as deposits while AIG intended to account for them as reinsurance.

33. Based on these and other discussions with senior officers at AIG, Houldsworth, Napier and others all knew or recklessly disregarded that AIG planned to account improperly for the Contracts to add loss reserves to AIG's balance sheet, even though Gen Re had accounted for the same losses as deposits. In a conversation that occurred on December 8, 2000, Monrad informed Houldsworth and Napier that she told the AIG Vice President of Reinsurance that Gen Re had accounted for the losses as deposits and that "there would not be symmetrical accounting." In other words, Monrad fully understood that AIG did not intend to account for the Contracts as deposits:

Monrad: We told AIG that there would not be symmetrical accounting here.

Houldsworth: Okay, fine.

Monrad: We told them that was one of the aspects of the deal they would have to digest.

Houldsworth: That's fine then. That should do it, shouldn't it? It's so unlikely to be an issue so . . .

Monrad: We haven't heard any push back from them in terms of can you change this, change that so . . .

Napier: It's quite to the contrary. When [the AIG Vice President of Reinsurance] called he said we're going to take it as - -

Monrad: It's a go.

Napier: - - we like it.

Houldsworth: Okay. Okay.

Monrad: Done.

34. To make the sham transaction appear real to outsiders, in a December 8, 2000 email to others at Gen Re, Houldsworth pondered whether CRD "need[s] to produce a paper trail offering the transaction to the client?" In the end, Houldsworth did create, sign and send documents to AIG creating a paper trail that made it appear as though CRD solicited the transaction from AIG, even though everyone knew that it was AIG that had solicited the deal to manipulate its loss reserves. The paper trail included a letter dated December 27, 2000 from Houldsworth to the AIG Vice President of Reinsurance as follows:

> We are encouraged that you believe AIG will be able to provide us with cover for [the six reinsurance transactions that CRD had previously reinsured]. . . . Consequently we have drafted a contract wording for discussion purposes which I have attached for your examination. . . . I hope that on review of the draft agreement you will be able to support this cover and look forward to hearing from you shortly with your initial comments.

35. In a telephone conversation on December 28, 2000 between Houldsworth, Napier and the AIG Vice President of Reinsurance, the AIG Vice President of Reinsurance confirmed that he received Houldsworth's fax of the December 27, 2000 letter and that the AIG Vice

President of Reinsurance expected to send a reply email to Houldsworth that day accepting Houldsworth's proposal. The AIG Vice President of Reinsurance informed Houldsworth and Napier that he did not need any further documentation by year end to book the transaction as a year 2000 transaction, and that once the AIG Vice President of Reinsurance sent his reply email accepting the offer, the paper trail would be complete.

Effecting the Undisclosed Side Agreements

36. Because the Contracts intentionally did not contain any mechanism for CRD to recover the $10 million in premiums that CRD was to pay National Union ($5 million on each contract) and the $5.2 million that CRD/Gen Re was to receive in undisclosed fees for putting the deal together, CRD/Gen Re did not want to pay National Union the $10 million in "premiums" until National Union/AIG sent CRD/Gen Re $15.2 million. In order to accomplish the side agreements and consummate the Contracts, the AIG Vice President of Reinsurance proposed that AIG and Gen Re enter into a purportedly unrelated transaction in which they would be able to conceal the payment by AIG to Gen Re of the $15.2 million – $10 million which Gen Re then used to fund its premium obligation and $5.2 million which was the fee to Gen Re for setting up the deal.

37. In a telephone conversation on February 16, 2001, Monrad told Houldsworth that she had spoken to the AIG CFO who said that AIG had already booked the first half of the transaction in 2000, even though the mechanism for AIG to pre-fund the $10 million in "premiums" and to pay Gen Re/CRD the $5.2 million fee had not been agreed upon yet. That same day, Napier sent an email to Houldsworth and Monrad informing them that the AIG CFO and AIG Vice President of Reinsurance had decided that the most efficient way to transfer the funds to Gen Re would be to commute – or terminate – an unrelated transaction between Gen Re

and an AIG subsidiary, HSB, and leave Gen Re with approximately $15 million that otherwise would have been returned to HSB.

38. This "unrelated" transaction between Gen Re and HSB was not finalized until December 2001. At the time, Gen Re held over $30 million in an account that would be owed to HSB if the contract were commuted. AIG and Gen Re decided to commute the HSB contract and distribute the proceeds from the account approximately as follows: $7.5 million to HSB, $9.1 million to AIG and $15.2 million to Gen Re, $10 million of which would be later paid to National Union by CRD as "premiums."

39. The commutation agreement between Gen Re and HSB was executed on December 21, 2001, under which Gen Re was expressly obligated to pay $7.5 million to HSB. To effect the transfers of the remaining funds, on December 27, 2001, Gen Re and National Union executed a retrocession agreement ("Gen Re/National Union Contract") whereby National Union agreed to reinsure Gen Re for any losses Gen Re became obligated to pay under its reinsurance contract with HSB, the contract that had just been commuted (meaning there could not possibly be any losses incurred under that contract). Under the Gen Re/National Union Contract, Gen Re paid National Union approximately $9.1 million in "premiums" for a contract that had no purpose other than to mask the true reason for the transfer of these funds between Gen Re and National Union/AIG.

40. In order to transfer the remaining funds in the HSB account from Gen Re to CRD, Gen Re and CRD entered into a reinsurance contract on December 27, 2001 whereby CRD would pay $400,000 for $13 million in coverage. On December 28, 2001, under this newly created contract, Gen Re transferred $12.6 million to CRD as "loss payments" due under the contract ($10 million for the premiums that CRD would pay to National Union and $2.6 million

representing CRD's cut of the $5.2 million in fees for putting together the Contracts). That same day, CRD transferred $10 million to National Union as "premiums" for the Contracts.

41. In total, the Gen Re/AIG transaction was reflected in four contracts, none having economic substance and all created solely to disguise the true nature of the collective agreements. In November 2004, at AIG's request, CRD and National Union commuted the First Contract. In February 2005, AIG requested that CRD and National Union commute the Second Contract, but the second commutation has not yet occurred.

AIG Improperly Added Loss Reserves to Its Financial Statements

42. As Houldsworth, Monrad, Napier and others at Gen Re anticipated, AIG accounted for the Contracts as if they were real reinsurance contracts that transferred risk from Gen Re to AIG, when all parties involved knew or recklessly disregarded that there was no risk transfer and that the transactions in reality had no economic substance and provided no upside or downside to either party, other than the undisclosed $5.2 million fee AIG paid to Gen Re to create the sham transactions. By treating the Contracts as if they were real reinsurance contracts, AIG falsely inflated its Reserves for Losses and Loss Expense by $250 million and its Premiums and Other Considerations by $250 million in the financial statements contained in the Form 10-K for the year ended December 31, 2000 that AIG filed with the Commission on April 2, 2001. Likewise, AIG falsely inflated its Reserves for Losses and Loss Expense by an additional $250 million and its Premiums and Other Considerations by $250 million in the financial statements contained in the Form 10-Q for the quarter ended March 31, 2001 that AIG filed with the Commission on May 15, 2001.

43. On March 30, 2005, AIG issued a press release announcing a delay in the filing of AIG's 2004 Form 10-K and disclosing that an internal review of AIG's books and records was

being conducted. The release also discussed the Gen Re transactions and stated that "the documentation [for the Gen Re transactions] was improper and, in light of the lack of evidence of risk transfer," the accounting for the transactions would be corrected.

44. On May 31, 2005, AIG filed its 2004 Form 10-K with the Commission, in which it stated with regard to the Gen Re transactions: "AIG has concluded that the transaction was done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer. As a result, AIG has determined that the transaction should not have been recorded as insurance. AIG's restated financial statements recharacterize the transaction as a deposit rather than as insurance."

AIG's Fourth Quarter 2000 and First Quarter 2001 Earnings Releases

45. Reflecting the impact of the First Contract, on February 8, 2001, AIG issued its fourth quarter 2000 earnings release in which the AIG Chairman stated: "AIG had a very good quarter and year. . . . We added $106 million to AIG's general insurance net loss and loss adjustment reserves for the quarter, and together with the acquisition of HSB Group, Inc., increased the total of those reserves to $25.0 billion at year-end 2000."

46. Analysts reacted favorably to the added reserves and premiums, including one analyst who noted:

> We think this quarter was a good example of AIG doing what it does best: growing fast and making the numbers. The key takeaways were 20% local currency growth in international life premium equivalents, an increase from last quarter's 18.5% growth rate, and another acceleration of growth in nonlife insurance, with domestic general premiums growing 17.7% compared to 8.7% last quarter. *As important was the change in reserves: AIG added $106 million to reserves and the paid/incurred ratio fell to 97.1%, the lowest level since the first quarter of 1999.*
>
> Finally, AIG put to rest a minor controversy from last quarter by adding $106 million to reserves, worth 7.1 points on the combined ratio. This lowered the

> paid/incurred ratio to 97.1%, the lowest level since the first quarter of 1999. For the full year, reserve increases were 2% of earned premiums for a paid/incurred ratio of 99.1%, down from 100.2% in 1999.
>
> (Emphasis added.)

47. Similarly, in AIG's first quarter 2001 earnings release issued on April 26, 2001, the AIG Chairman noted the loss reserves AIG had added to its books:

> AIG had a solid first quarter, benefiting from a continuing strengthening of pricing in the commercial property casualty market, as well as strong performance by our overseas life insurance business and financial services businesses. . . . We added $63 million to AIG's general insurance net loss and loss adjustment reserves for the quarter, bringing the total of those reserves to $25.0 billion at March 31, 2001.

48. Analysts again commented favorably upon the added reserves.

49. Without the phony loss reserves added to AIG's balance sheet through the Contracts, AIG's reported loss reserves would have been $250 million less in the fourth quarter of 2000 and $500 million less in the first quarter 2001. This means that the $106 million increase in reserves that the AIG Chairman touted in AIG's fourth quarter 2000 earnings release was in reality a $144 million decrease in reserves, and the $63 million increase in reserves touted in AIG's first quarter 2001 earnings release was in reality a $187 million decrease in reserves.

FIRST CLAIM FOR RELIEF
Aiding and Abetting Violations of
Section 10(b) of the Exchange Act and Rule 10b-5
(Both Defendants)

50. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 49.

51. AIG and others, directly or indirectly, singly or in concert, by use of the means or instrumentalities of interstate commerce, or of the mails, in connection with the purchase or sale of securities, knowingly or recklessly, have: (a) employed devices, schemes and artifices to

defraud; (b) made untrue statements of material fact, or have omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and/or (c) engaged in acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchasers of AIG securities and upon other persons, in violation of Section 10(b) of the Exchange Act [15 U.S.C. §§78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] promulgated thereunder.

52. Defendants and others knowingly provided substantial assistance to AIG and others in the commission of these violations.

53. By reason of the activities herein described, Defendants aided and abetted violations of Section 10(b) of the Exchange Act [15 U.S.C. §§78j(b)] and Rule 10b-5 [17 C.F.R. §240.10b-5] promulgated thereunder.

SECOND CLAIM FOR RELIEF
Aiding and Abetting Violations of Section 13(a)
of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13
(Both Defendants)

54. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 49.

55. AIG failed to file with the Commission such financial reports as the Commission has prescribed, and AIG failed to include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 [15 U.S.C. § 78m(a) and 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

56. Defendants and others knowingly provided substantial assistance to AIG in the commission of these violations.

57. By reason of the foregoing, Defendants aided and abetted AIG's violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 [15 U.S.C. § 78m(a) and 17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

THIRD CLAIM FOR RELIEF
Aiding and Abetting Violations
of Section 13(b)(2) of the Exchange Act
(Both Defendants)

58. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 49.

59. AIG failed to:

a. make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets; and

b. devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

i. transactions were executed in accordance with management's general or specific authorization;

ii. transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets;

iii. access to assets was permitted only in accordance with management's general or specific authorization; and

iv. the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences.

60. Defendants and others knowingly provided substantial assistance to AIG in the commission of these violations.

61. By reason of the foregoing, Defendants aided and abetted AIG's violations of Section 13(b)(2) of the Exchange Act [15 U.S.C. § 78m(b)(2)].

FOURTH CLAIM FOR RELIEF
Aiding and Abetting Violations of Rule 13b2-1
(Both Defendants)

62. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 49.

63. AIG and others, directly or indirectly, falsified or caused to be falsified the books, records and accounts of AIG that were subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

64. Defendants and others knowingly provided substantial assistance to AIG and others in the commission of these violations.

65. By reason of the foregoing, Defendants aided and abetted violations of Rule 13b2-1 of the Exchange Act [17 C.F.R. § 240.13b2-1].

FIFTH CLAIM FOR RELIEF
Aiding and Abetting Violations of
Section 13(b)(5) of the Exchange Act
(Both Defendants)

66. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 49.

67. AIG and others knowingly circumvented or knowingly failed to implement a system of internal accounting controls and knowingly falsified, directly or indirectly, or caused to be falsified books, records and accounts of AIG that were subject to Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

68. Defendants and others knowingly provided substantial assistance to AIG and others in the commission of these violations.

69. By reason of the foregoing, Defendants aided and abetted violations of Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court grant a Final Judgment:

I.

Permanently enjoining Defendants, their agents, servants, employees and attorneys and all persons in active concert or participation with them who receive actual notice of the injunction by personal service or otherwise, and each of them, from future violations of Sections 10(b), 13(a), 13(b)(2) and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2) and 78m(b)(5)] and Rules 10b-5, 12b-20, 13a-1, 13a-13 and 13b2-1 [17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-13 and 240.13b2-1].

II.

Ordering each of the Defendants to disgorge ill-gotten gains from the conduct alleged herein and to pay prejudgment interest thereon.

III.

Ordering each of the Defendants to pay civil money penalties pursuant to Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)].

IV.

Permanently barring each of the Defendants, pursuant to Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)], from serving as an officer or director of any issuer that has a class of securities registered under Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)].

V.

Granting such other and further relief as to this Court seems just and proper.

Dated: New York, New York
June 10, 2005

By: _____

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