

# EDWARD LIDDY'S PITCH IN THE WAPO

On the morning of what is sure to be a grilling by Congress, Edward Liddy has an op-ed in the WaPo. There are two significant details in the op-ed.

First, Liddy reveals that the retention contracts are over a year old.

Make no mistake, had I been chief executive at the time, I would never have approved the retention contracts that were **put in place more than a year ago**. [my emphasis]

Thus far, AIG has been hiding the date when these bonuses were put into place, saying they were put into place last spring. This confirms the bonuses were in place at least by March 17, 2008.

That's significant because AIG first publicly admitted AIGFP was FUBAR on February 28, 2008 (h/t masaccio):

As of December 31, 2007, controls over the AIGFP super senior credit default swap portfolio valuation process and oversight thereof were not effective. AIG had insufficient resources to design and carry out effective controls to prevent or detect errors and to determine appropriate disclosures on a timely basis with respect to the processes and models introduced in the fourth quarter of 2007. As a result, AIG had not fully developed its controls to assess, on a timely basis, the relevance to its valuation of all third party information. Also, controls to permit the appropriate oversight and monitoring of the AIGFP super senior credit default swap portfolio valuation process, including timely sharing of information

at the appropriate levels of the organization, did not operate effectively. As a result, controls over the AIGFP super senior credit default swap portfolio valuation process and oversight thereof were not adequate to prevent or detect misstatements in the accuracy of management's fair value estimates and disclosures on a timely basis, resulting in adjustments for purposes of AIG's December 31, 2007 consolidated financial statements. In addition, this deficiency could result in a misstatement in management's fair value estimates or disclosures that could be material to AIG's annual or interim consolidated financial statements that would not be prevented or detected on a timely basis.

In other words, if those contracts were for all intents and purposes in place before AIG publicly admitted AIGFP was FUBAR, it makes it more likely they were an attempt to lock in their riches before things started falling apart (though they were undeniably put in place at a time when AIG knew those employees had screwed things up).

Just as notably, Liddy emphasizes the continuing risk of the CDS portfolio as the reason to continue paying these bonuses, rather than the contractual obligation that has been emphasized in Congress and the press. Compare these two paragraphs alluding to the risk involved...

Although we have wound down more than \$1 trillion in the portfolio of the AIG Financial Products unit that is at the root of the company's troubles, there remains substantial risk in that portfolio. The financial downside for taxpayers is potentially very large, and that's why we're winding down this business.

To prevent undue risk exposure in the

meantime, AIG has made a set of retention payments to employees based on a compensation system that prior management put in place. As has been reported, payments were made to employees in the Financial Products unit. Make no mistake, had I been chief executive at the time, I would never have approved the retention contracts that were put in place more than a year ago. It was distasteful to have to make these payments. But we concluded that the risks to the company, and therefore the financial system and the economy, were unacceptably high.

... With the brief nod to paying money that is owed—which, in context, appears to refer to repaying us, the taxpayers, and not to bribing the banksters who got us into this mess.

In America, when you owe people money, you pay them. We are pressing forward with our plan to return money to taxpayers, protect policyholders, and give employees a vision of success and a path for achieving it.

Give Liddy some credit. Unlike Larry Summers, who wants to pretend this is all about an inability to abrogate contracts, Liddy is at least admitting the real reason for the bonuses. He's paying these banksters because they have us by the nuts until these contracts are unwound, not because of any celebration of the rule of law.