



Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

EliScholar – A Digital Platform for
Scholarly Publishing at Yale

YPFS Resource Library

3-6-2006

Office of Thrift Supervision Report of Examination : AIG Financial Products, Inc. – Significant Products and Activities

United States: Department of the Treasury: Office of Thrift Supervision

<https://elischolar.library.yale.edu/ypfs-documents/5779>

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact ypfs@yale.edu.



**Office Of Thrift Supervision
Department of the Treasury**

1700 G Street, N.W., Washington, DC • (202) 906-6000

**AIG Financial Products, Inc. – Significant Products and Activities
REPORT OF EXAMINATION**

**American International Group, Inc. (AIG)
New York, NY 10270**

Docket Number: H2984

Type of Examination: Holding Company – Limited

Examination Start Date: March 6, 2006

Examiner-in-Charge: [REDACTED]

Scope and Summary of Review

AIG's capital markets businesses are conducted through AIG Financial Products, Inc. and its subsidiaries (AIGFP), which enter into a broad range of financial derivatives transactions and invest in a wide range of debt and equity securities. The limited examination focused on gaining a more thorough understanding of the more significant types of transactions and securities entered into by AIGFP. The primary objectives were information discovery, clarification, and categorization in preparation for more in-depth assessment/reviews of overall risks, risk management processes, internal controls, accounting and future examinations. In addition, the review included a follow-up of matters disclosed in the May 25, 2005 examination (the 2005 examination).

The limited examination allowed us to improve our top-level understanding of AIGFP's business model and gained a more thorough understanding of how AIGFP categorizes and manages its financial transactions and activities. We made no final assessments of AIGFP's activities or operations as a result of this review, nor did we make any conclusions regarding the adequacy of corrective measures that have been implemented in response to recommendations contained in the 2005 examination.

Revenue Reports

Revenue summary reports currently furnished to AIGFP senior management and the AIGFP board identify gross revenues earned daily, monthly, quarter-to-date, year-to-date, and annually, as well as revenues distributed by transaction (daily only) and by five risk and two product segments: Commodities, Credit, Currencies, Equities and Rates, TDG Accruals, and Other. There is insufficient detail in these reports to permit those not involved in the day-to-day business of AIGFP to understand to what extent new transactions, accruals, and variations contribute to revenue trends and comparisons from period to period. There is also insufficient detail in the monthly, quarter-to-date, year-to-date, and annual revenue reports to understand to what extent AIGFP's performance relies upon the consummation of a few large transactions.

AIGFP's Year-to-Date March 31, 2006, and Full Year 2005 Revenue Distribution Reports are presented in the tables below, followed by a discussion of the revenue segments. More detailed descriptions of these reports are in the work-papers supporting this limited examination.

REVENUE DISTRIBUTION BY PRODUCT SEGMENT (US\$ Millions)					
	Year-to-Date March 31 2006		% Change from Prior Year	Year-to-Date March 31 2005	
Commodities	45	10%	77%	25	7%
Credit	129	29%	396%	25	7%
Currencies	30	7%	-9%	33	8%
Equities	45	10%	53%	30	8%
Rates	53	12%	-41%	90	24%
TDG Accruals	159	35%	-8%	173	46%
Other	-15	-3%	1400%	-1	0%
TOTAL	448	100%	19%	377	100%

REVENUE DISTRIBUTION BY PRODUCT SEGMENT (US\$ Millions)					
	Full Year 2005		% Change from Prior Year	Full Year 2004	
Commodities	129	8%	40%	92	5%
Credit	450	29%	10%	408	24%
Currencies	123	8%	16%	106	6%
Debt	171	11%	-46%	316	18%
Energy	424	27%	8%	393	23%
Equity	80	5%	-2%	82	5%
Rates	196	12%	-41%	330	19%
TOTAL	1,573	100%	-9%	1,727	100%

[REDACTED]

[REDACTED]

[REDACTED]

The Credit revenue segment, which primarily represents revenue on credit derivative and asset transactions, showed a significant dollar increase due primarily to an increase in the aggregate notional amount of super senior credit derivative transactions. Revenue is generally booked on an accrual basis for this segment. Revenue on asset transactions represents revenues from high-grade bonds and structured investments stripped of revenues attributable to interest rate risk, foreign exchange risk, and other market risks.

[REDACTED]

[REDACTED]