

[Home](#) | [Previous Page](#)

U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 21170 / August 6, 2009

Accounting and Auditing Enforcement Release No. 3032 / August 6, 2009

Securities and Exchange Commission v. Maurice R. Greenberg and Howard I. Smith, Civil Action No. 09 Civ 6939 (S.D.N.Y.)

SEC Charges Hank Greenberg and Howard Smith for Roles in Alleged AIG Accounting Violations

The Securities and Exchange Commission today charged former American International Group Chairman and CEO Maurice "Hank" Greenberg and former Vice Chairman and CFO Howard Smith for their involvement in numerous improper accounting transactions that inflated AIG's reported financial results between 2000 and 2005. The complaint alleges that Greenberg and Smith are liable as control persons for AIG's violations of the antifraud and other provisions of the securities laws. Smith is also charged with direct violations of the antifraud and other provisions of the securities laws.

The complaint alleges that Greenberg and Smith were responsible for material misstatements that enabled AIG to create the false impression that the company consistently met or exceeded key earnings and growth targets. According to the complaint, Greenberg publicly described AIG as the leader in the insurance and financial services industry with a history of delivering consistent double-digit growth. However, AIG faced numerous financial challenges under Greenberg's leadership that were disguised through improper accounting.

The complaint, filed in U.S. District Court for the Southern District of New York, charges the defendants with responsibility for the following improper accounting transactions:

- Sham reinsurance transactions to make it appear that AIG had legitimately increased its general loss reserves.
- A purported deal with an offshore shell entity to conceal multi-million dollar underwriting losses from AIG's auto-warranty insurance business.
- Economically senseless round-trip transactions to report improper gains in investment income.
- The purported sale of tax exempt municipal bonds owned by AIG's subsidiaries to trusts that AIG controlled in order to improperly

recognize realized capital gains.

The complaint alleges that Greenberg knew about the effects that certain improper transactions would have on AIG's reported financial results, and along with Smith was responsible for false and misleading public statements and material omissions in quarterly reports that AIG filed in the second and third quarters of 2002, and in related press releases and investor conference calls. In 2005, AIG restated its prior accounting for many transactions, including those that are the subject of the charges in the SEC's complaint.

Without admitting or denying the allegations in the complaint, Greenberg has consented to a judgment enjoining him from violating Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 and from controlling any person who violates Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13, and directing him to pay a penalty of \$7.5 million and disgorgement of \$7.5 million.

Without admitting or denying the allegations in the complaint, Smith has consented to a judgment enjoining him from violating Section 17(a) of the Securities Act of 1933, and Sections 10(b) and 13(b)(5) of the Exchange Act and Rules 10b-5, 13a-14, 13b2-1, and 13b2-2, and from controlling any person who violates Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13, directing him to pay a penalty of \$750,000 and disgorgement of \$750,000, and prohibiting him from acting as an officer or director of any public company for three years. Smith also consented to the entry of a Commission order that will suspend him from appearing or practicing before the Commission as an accountant, with the right to reapply after five years.

The SEC previously charged AIG in 2006 with securities fraud and improper accounting, and the company settled the charges by paying disgorgement of \$700 million and a penalty of \$100 million, among other remedies.

▶ [SEC Complaint](#)

<http://www.sec.gov/litigation/litreleases/2009/lr21170.htm>

[Home](#) | [Previous Page](#)

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