MARKETS

AIG Probes May Find More Officials Knew Of Accounting Moves

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Investigators involved in the multiple probes of American International Group Inc.'s accounting say they believe knowledge of and participation in questionable "top level" accounting adjustments extend beyond two of the insurance company's former senior executives, people familiar with the probes said.

The more AIG executives who knew about any such practices, the more problematic the scenario for AIG becomes as it struggles to resolve the probes into accounting maneuvers over five or more years. The top-level adjustments – so named by the company because of senior management's alleged involvement – include shaving reserve levels, moving expenses and revenue between quarters and mislabeling some capital gains as investment income. They have become a significant focus of state regulators' overlapping probes into whether AIG burnished its financial results with improper accounting, according to the people familiar with the investigations.

In recent weeks, AIG has sought to distance current management from the accounting woes. But authorities believe the extensive nature of the problems may make it less likely that a tiny number of departed executives were solely responsible, the people said.

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Dow Jones, Reuters

American International Group Inc. (AIG)

PRICE	52.48
CHANGE	-0.73
U.S. dollars	4:01 p.m.

Berkshire Hathaway Inc. Cl A (BRKA)

PRICE	83150.09
CHANGE	375.10
U.S. dollars	3:53 p.m.

* At Market Close

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"Nothing has changed since our last press release, which refers to these top-level adjustments being taken at the behest of certain former members of senior management," said AIG spokesman Chris Winans. "If we become aware of a significant change, we will fulfill our obligation to disclose it."

The top-level items were one relatively small chunk of an 11-page menu of improper and potentially improper accounting tactics disclosed in a statement AIG issued May 1, after missing its third self-imposed deadline to file its annual report. AIG said in the release that improper accounting since 2000 would contribute to a cut in its net worth of about $2.7 billion, or roughly 3.3%.

Of that, the top-level matters tally only about $100 million, the company said, noting its internal review had "determined that certain entries appear to have been made at the direction of certain former members of senior management without appropriate support."

People familiar with the matter have said that the senior managers referred to in the release are former Chief Executive Maurice R. "Hank" Greenberg and former Chief Financial Officer Howard I. Smith, who was dismissed in March for refusing to cooperate with investigators. The two men haven't been charged with wrongdoing.

A spokesman and lawyer for Mr. Greenberg, who also left in March, have maintained that other senior managers -- and even the company's directors and auditors -- were aware of the accounting entries. Yesterday, Mr. Smith's attorney, Andrew M. Lawler, said that the top executives for each of AIG's operating units signed off on that unit's financial statements before they were filed with the Securities and Exchange Commission or other regulators. "Presumably when they certified them, they believed them all to be accurate," he said.

Muddying the matter is that at least some of the accounting maneuvers can be defended as judgment calls, according to financial professionals and people close to the probe.

"A person could say these adjustments had merit, but until there's more inspection, that's not clear," said Grace Osborne, a credit analyst covering AIG for Standard & Poor's in New York. "What's key here is that these adjustments may have been made without appropriate support."

Insurers' claims reserves long have been considered something of a black box. Insurance companies take in premiums and set aside some of that money for future losses. Insurers have discretion about how much to set aside, which means they can build bigger reserves during good times and put aside slimmer ones when times get rough. A big reason for the discretion is that setting up reserves involves many assumptions about claims that in some cases, as with directors' and officers' liability insurance, won't be paid for years.

AIG's practices for building up -- and sometimes releasing -- reserves has surfaced in a different context in the probes into its accounting. Authorities since early this year have been examining whether AIG artificially inflated its premium revenue and claims reserves through a reinsurance transaction with a Berkshire Hathaway Inc. unit, put in place in the final quarter of 2000 and the first quarter of 2001. The deal was struck shortly after AIG came under investor criticism for releasing claims reserves in the third quarter of 2000; some interpreted the release as a maneuver to help the company meet earnings expectations. AIG shares fell 6% on the day of its profit announcement.

Most of the "top level" issues in AIG's May 1 release "struck me as something that could be a judgment call," said Michael Smith, a recently retired Wall Street stock analyst who previously worked in the insurance industry. But he dubbed it "accounting gymnastics" to turn realized capital gains, "something analysts routinely ignore," into investment income, "something they routinely focus on."

Today at a committee meeting of the National Association of Insurance Commissioners in Chicago, New

York officials will present drafts of new rules governing how insurers may account for reinsurance transactions in their state regulatory filings, including changes designed to increase disclosure for investors and regulators.

The SEC has notified former General Re chief financial officer, Elizabeth Monrad, that it is considering filing securities-fraud charges against her because of her role in the AIG transaction.

Ms. Monrad, now chief financial officer at TIAA-CREF pension fund, is the second executive from General Re to surface as recipient of a so-called Wells notice from the SEC tied to the transaction. As previously reported, Rick Napier, a senior vice president at General Re, also has been told that he may face charges. At least one other General Re employee also may have received such notification, people close to the situation said. Individuals or companies receiving such notice have an opportunity to argue against action by the SEC. A TIAA-CREF spokeswoman declined to comment. Ms. Monrad didn't return calls for comment.

--Susan Pulliam contributed to this article.

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