DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 29, 2010

**INFORMATION MEMORANDUM**

**FROM:** Timothy G. Massad
Acting Assistant Secretary, Office of Financial Stability

**SUBJECT:** AIG Loss Estimate

Over the past several days, there have been numerous press reports criticizing Treasury's methodology for valuing its investment in American International Group ("AIG"), as set forth in our Two Year Retrospective on the TARP program (the "Retrospective"). The reports suggest that Treasury has changed its valuation methodology. These reports are incorrect, and I am writing to clarify the facts.

Treasury has disclosed its established valuation methodology in published reports.[1] The methodology describes how Treasury values different types of securities or other assets that it holds—including securities that are publicly traded and have a market price, and securities that are not publicly traded and do not have a market price. Treasury values the former category by using the market price of that security.[2] Treasury values the latter category by using a financial model that estimates future cash flows based on certain variables.

On September 30, AIG announced a major restructuring plan, which would result in a dramatic change in Treasury's investment in AIG. Treasury currently holds AIG preferred shares, which are not publicly traded. Under the restructuring plan, those shares will be converted into common shares, which are publicly traded. As noted above, Treasury's standard methodology values publicly-traded securities based on their current market price.

On October 5, Treasury publicly released the Retrospective. The report estimates the total value of Treasury's investment in AIG *after* the future closing of the restructuring plan. We chose this approach because we believe that it best reflects the likely value of the taxpayers' investment. The Retrospective clearly and prominently discloses this assumption. For example, the report includes a table that estimates the value of Treasury's holdings in AIG. The title of the table states in large, bold-faced font that it is "post-Restructuring," and it lists "common equity," which is valued at "the market closing price on October 1, 2010."[3]

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1 *See, e.g.*, OFS Agency Financial Report for Fiscal Year 2009; Methodology to Calculate Estimated TARP Cost, May 21, 2010.

2 Treasury uses this approach for all of its publicly-traded common stock, including its holdings in Citigroup.

3 The Retrospective discloses this information not only in the AIG section, but also in the Executive Summary. *See* pages 3, 4.

Treasury will use the same standard valuation methodology in its forthcoming annual report. In the report, Treasury will value the AIG preferred shares that we currently hold by using a financial model that estimates future cash flows. In addition, Treasury will value the AIG common shares that we expect to receive through the restructuring plan by using the market price of those shares. Both estimates will be consistent with Treasury's well-documented valuation methodology.