



LAW AND REGULATION

BankThink Did the Government Profit From AIG? That's the Wrong Question

By Francine McKenna September 14, 2012, 10:00 a.m. EDT 4 Min Read



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Barofsky's Memoir Will Ring True to Bank Examiners, Auditors

The special inspector general for Tarp worked in the subbasement of the Treasury Department. Watchdogs given an inconvenient, dank, dark, dirty and desolate office maybe won't stay long.

By Francine McKenna

August 10

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Do You Buy Treasury's Claim That Dodd-Frank Aids Small Banks?

The Treasury Department has released an infographic outlining how the financial reform legislation helps to strengthen Main Street banks. Do you agree Dodd-Frank creates a level playing field for financial institutions?

August 29

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The Treasury Department will auction its stakes in five more banks — including shares it owns in an Illinois bank that it previously failed to sell — as it continues to wind down the Troubled Asset Relief Program.

By [Jackie Stewart](#)

September 6

The Treasury Department announced this week it would sell \$18 billion worth of AIG shares at \$32.50 and the applause started almost immediately. Treasury said taxpayers would see a "positive return" from the investment in AIG, a nonbank financial services firm so systemically important we gave them more than \$182 billion to survive.

This is Treasury's biggest dump of AIG shares since the crisis forced a rescue of the insurer in 2008 and supplemental support in 2009. Taxpayers owned almost 80% of AIG in exchange for all that cash.

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It can never be proven that the crisis bailouts saved us from financial Armageddon. That's the logical fallacy of asserting a claim with no way to disprove the opposite. So saying we made a profit on the deal is the next best thing. The [New York Times' Andrew Ross Sorkin claims](#), if you combine Treasury actions and "positive returns" on Federal Reserve activities, the Treasury is now "on a path to actually turn a profit." That's where the debate starts.

Former Special Inspector General for the Troubled Asset Relief Program Neil Barofsky says, "[Not so fast.](#)" I agree. If your intention is to try to [prove or disprove the government PR claims that the taxpayer has made an accounting profit](#) on any of the bailouts, or even broken even, you must remember this: That's not why the government supposedly did what they did. And on the two counts

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Treasury never uses the term "profit," even in press releases. The term it does use, "positive return," is a non-Generally Accepted Accounting Principles metric. Treasury has sunk to the level of a social commerce IPO like Groupon, whose infamous [Consolidated Segment Operating Income \(CSOI\)](#) – which was [slammed by the Securities and Exchange Commission](#) – glossed over losses to convince investors there was a gain instead.

Combining numbers from the Fed's AIG investment with Treasury's has two big problems. The first is that each entity tracked the value of their AIG investments differently. The second is that you can't assume the numbers published by the Treasury have received the same level of independent scrutiny by independent outside auditors as the Fed's.

Treasury uses a government version of GAAP to prepare its annual reports. The [Treasury's caveat](#): "The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity."

Treasury uses Statement on Federal Financial Accounting Standards No. 2 to account for equity investments which requires measurement at the net present value of estimated future cash flows. AIG common stock is held on an "available-for-sale" basis and Treasury records it at fair value using models to calibrate to market prices of similar securities. Modeling the value of Treasury's investment in AIG preferred shares is imperfect since no other asset like it exists.

The [Fed's caveat](#) is stronger: "Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit." At the Fed, these investments are recorded at cost on a settlement-date basis rather than the trade-date basis required by GAAP. The Fed records them at amortized cost rather than fair value.

[Barofsky told Sorkin](#) "it's just not accurate" for Sorkin or anyone else to accept Treasury's view of profitability because "they mixed the pot. The Fed's cost basis is zero and they essentially gifted the shares to Treasury."

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the solvency of Bear Stearns, Washington Mutual, Royal Bank of Scotland and Merrill Lynch before all ceased to exist as independent companies.

The Treasury is audited by KPMG. However, KPMG does not audit the numbers for the TARP department, Treasury's Office of Financial Stability. KPMG depends on the Government Accountability Office to do that. "Our opinion," says KPMG in Treasury's 2011 Agency Fiscal Report, "insofar as it relates to the amounts included for IRS and OFS, is based solely on the reports of the other auditor."

The GAO's most recent audit report says OFS still hasn't completely fixed a repeat significant deficiency in internal controls over their financial reporting. The problems include a significant, but not material, incorrect amounts and inconsistent disclosures in OFS's draft financial statements that OFS did not detect, and instances where OFS's accounting and financial reporting procedures were not complete or effectively implemented.

In October 2010, the [Congressional Oversight Panel](#) issued a report on Treasury's use of contractors to support OFS and TARP. The largest contractor is PricewaterhouseCoopers, the global accounting and consulting firm and the auditor of AIG since 1980. Did PwC help OFS prepare the status report on the government's "positive return" from the bailout of AIG? If so, that would be a serious conflict of interest. A Treasury spokesperson did not respond to my inquiry by press time.

My caveat? Don't believe the hype.

Francine McKenna writes the blog [re: The Auditors](#), about the Big Four accounting firms. She worked in consulting, professional services, accounting and financial management for more than 25 years.

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TRENDING

ELECTION 2020

Biden win gives Maxine Waters a power boost

The head of the House Financial Services Committee is already exerting influence by handing the president-elect a laundry list of Trump regulatory policies that she wants the incoming administration to reverse.

By Neil Haggerty

9m ago

CRYPTOCURRENCIES

Two cryptocurrency firms seek OCC approval to charter trust banks

BitPay and Paxos are only the latest digital currency companies to pursue a national charter from the Office of the Comptroller of the Currency.

By Brendan Pedersen

3h ago

DIVERSITY AND EQUALITY

Black-owned banks band together to finance pro sports facility

Their \$35 million refinancing of the Atlanta Hawks's training complex is being touted as the first time that a professional sports team has secured a loan underwritten exclusively by Black banks.

By Allissa Kline

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REVENUE AND EXPENSES

F.N.B. in Pennsylvania to close 21 branches

The Pittsburgh company also sold a portfolio of indirect auto loans and repaid a large amount of Federal Home Loan Bank borrowings.

By **Jim Dobbs**

4h ago

CHALLENGER BANK

A challenger bank entices immigrants with high yields and 5% cash back

To get the word out to the Indian and Asian immigrants it's targeting, OnJuno is using social media influencers that include a well-known Japanese-American chess player and running ads during streamed cricket matches.

By **Miriam Cross**

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CFPB finalizes overhaul of mortgage underwriting rules

The consumer bureau's revamp of criteria for "qualified mortgages," a special regulatory class of loans free from liability, emphasizes pricing instead of a borrower's debt-to-income ratio.

By **Kate Berry**

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ENERGY INDUSTRY

Rebounding oil prices give new hope to energy lenders

The emergence of vaccines has boosted travel forecasts — and crude prices. The expected bump at the pump could help oil and gas companies get back on track with loan payments.

By **Jim Dobbs**

7h ago

SUCCESSION PLANNING

Maine Savings launches two-year succession plan

The process will see the state's largest credit union split its president and CEO roles until longtime chief executive John Reed retires in January 2023.

By **Aaron Passman**

7h ago

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CROSS BORDER PAYMENTS

Bank of America upgrades improve international payment transparency

Bank of America has launched a cross-border payment tracker through its Swift GPI module that allows clients real-time visibility into their international payments.

By David Heun

7h ago

The year in banking

Here are the milestones and missteps, the wonderful and weird, the best and worst, during a year that will be a powerful force in shaping the future of the industry

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