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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA* *ex rel.* DEREK CASADY, an individual; NANCY CASADY, an individual, Plaintiffs, v. AMERICAN INTERNATIONAL GROUP, INC., a Delaware Corporation; MERRILL LYNCH INTERNATIONAL and its successor BANK OF AMERICA; DEUTSCHE BANK AG; DEUTSCHE BANK CAYMAN ISLANDS BRANCH; GOLDMAN SACHS CAPITAL MARKETS, L.P.; GOLDMAN SACHS INTERNATIONAL; GOLDMAN SACHS GROUP, INC., a Delaware corporation; SOCIETE GENERALE; and DOES 1 through 100, Defendants.	Case No. 10-cv-0431 (JAH) **FILED UNDER SEAL PURSUANT TO 31 USC §3730(b)(2)** FIRST AMENDED FALSE CLAIMS ACT COMPLAINT RELATING TO MAIDEN LANE II LLC AND MAIDEN LANE III LLC **DO NOT PLACE IN PRESS BOX** **DO NOT ENTER ON PACER**

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FALSE CLAIMS ACT COMPLAINT AND DEMAND FOR JURY TRIAL

Derek Casady and Nancy Casady (the "Relators") file this amended operative complaint on behalf of the United States of America under the Civil False Claims Act 31 USC § 3729 *et seq.*, further documenting and clarifying their claims against defendants American International Group, Inc. (AIG), Merrill Lynch International and its successor Bank of America (collectively Merrill Lynch), Deutsche Bank AG, Deutsche Bank AG London, Deutsche Bank AG, Cayman Islands Branch (collectively Deutsche Bank), Goldman Sachs Group Inc., Goldman Sachs Capital Markets, L.P., Goldman Sachs International (Goldman Sachs), and Societe Generale for treble damages and civil penalties. These False Claims Act claims are supported by the Summary of Evidence filed in support of the violations of the False Claims Act as alleged in this operative complaint, as follows:

I.

SUMMARY OF FALSE CLAIMS CASE

1. This complaint asserts that the five major players in the over-the-counter collateralized debt obligation[1] (CDO) market operated fraudulently and then recovered their losses by filing false claims with the Federal government.

2. Beginning before September 2008, AIG and Doe defendants 1 through 10 conspired to make and caused to be made false claims with the FRBNY, the Fed Board, and the U.S. Department of Treasury in connection with obtaining an emergency $85 billion loan made by the FRBNY to AIG under 12 USC § 343. Defendants Deutsche Bank AG, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Goldman Sachs Group Inc (Goldman Sachs), Goldman Sachs Capital Markets LP, Goldman Sachs International, Merrill Lynch (a subsidiary of Bank of America) and Societe Generale conspired to make and made false claims in connection with the use of the proceeds of the $85 billion September 2008 facility.

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[1] CDO's, or Collateralized Debt Obligations, are sophisticated financial tools that repackage individual loans into a product that can be sold on the secondary market. These packages consist of auto loans, credit card debt, or corporate debt. They are called collateralized because they have some type of collateral behind them, http://useconomy.about.com/od/glossary/g/CDOs.htm

3. Beginning before November 2008, AIG, and Doe defendants 1 through 10 conspired to make and caused to be made false claims to be filed with the Federal Reserve Bank of New York (FRBNY), the Fed Reserve Board (Fed Board), and the United States Department of Treasury (Treasury) in connection with an emergency $22.5 billion loan made by the FRBNY to AIG under 12 USC § 343 known as the Maiden Lane II Loan. Defendants Deutsche Bank AG, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Goldman Sachs, Goldman Sachs Capital Markets LP, Goldman Sachs International, Merrill Lynch (now a subsidiary of Bank of America) and Societe Generale conspired to make and made false claims in connection with the use of proceeds of the $22.5 billion Maiden Lane II loan to pay the banks' demand for the return of cash collateral from AIG.

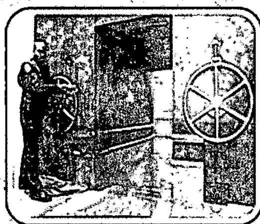
4. Beginning before September 2008, AIG, and doe defendants 1 through 10 conspired to make and caused to be made false claims to be filed with the FRBNY, the Fed Board, and Treasury in connection with an emergency $30 billion loan made by the FRBNY to AIG under 12 USC § 343 known as the Maiden Lane III Loan. Defendants AIG, Deutsche Bank AG, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Goldman Sachs Capital Market LP, Goldman Sachs International, Merrill Lynch (now a subsidiary of Bank of America) and Societe Generale conspired to make and made false claims in connection with the use of proceeds of the $30 billion Maiden Lane III loan to pay the banks for collateralized debt obligations transferred by the banks to the FRBNY.

5. The name 'Maiden Lane' comes from the FRBNY's address on Maiden Lane in lower Manhattan. The FRBNY is located at 33 Maiden Lane, New York, NY. The two loans, as detailed below, made by the FRNBY to AIG were named Maiden Lane II and Maiden Lane II after the FRBNY address in New York City.

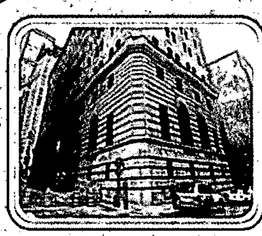
6. The following chart illustrates the false claims made by defendants AIG, Deutsche Bank AG, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Goldman Sachs, Goldman Sachs Capital Markets LP, Goldman Sachs International, Merrill Lynch (now a subsidiary of Bank of America) and Societe Generale in connection with the $85

billion facility loan, $22.5 billion Maiden Lane II and $30 billion Maiden Lane III emergency 12 USC § 343 loans:

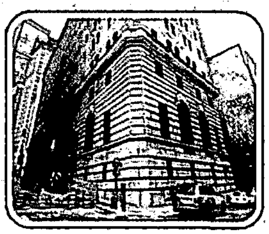
FEDERAL RESERVE BANK NEW YORK IS LOCATED ON MAIDEN LANE



$85 B Loan False Claims AIG, Goldman Sachs, Merrill Lynch (BofA), Deutsche Bank, Societe Generale



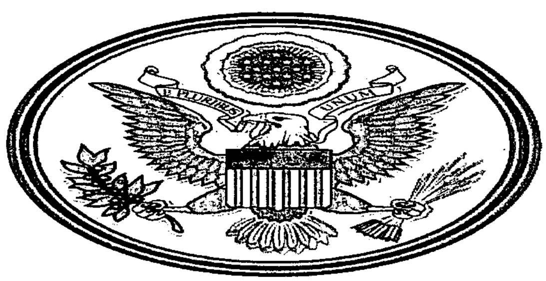
$22.5 B Maiden Lane II Loan False Claims AIG, Goldman Sachs, Merrill Lynch (BofA), Deutsche Bank, Societe Generale



$30 B Maiden Lane III False Claims AIG, Goldman Sachs, Merrill Lynch (BofA), Deutsche Bank, Societe Generale

II.

PARTIES AND PLAYERS



7. Plaintiffs Derek Casady and Nancy Casady bring this action on behalf of the United States of America under the False Claims Act 31 USC § 3729 *et seq*. The Casadys are residents of the State of California, County of San Diego within the Southern District of California. Both Derek Casady and Nancy Casady pay federal income taxes.

8. Defendant American International Group, Inc. (AIG) is a Delaware holding company that engages in insurance, financial services, and retirement services business through its subsidiaries, which operate throughout the United States and the Southern District of California.

9. AIG Financial Products Corp. (AIGFP) is a Delaware Corporation. AIGFP issued credit protection written through credit default swaps (CDS) [2]on "super senior" risk tranches of pools of loans and debt securities. AIGFP also operated AIG's securities lending program. AIGFP does business in the Southern District of California.

10. AIG Financial Products Corp. was founded in 1987 and is based in Wilton, Connecticut. The company also has offices in London, Paris, Houston, Tokyo, and Hong Kong.

11. Defendant Merrill Lynch & Co. Inc. (Merrill Lynch) provides trading, investment, financing and related services to individuals and institutions on a global basis through its broker, dealer, banking and other financial services subsidiaries. Merrill Lynch does business in the Southern District of California.

12. On 1 January 2009 defendant Merrill Lynch was acquired by Bank of America Corporation ("Bank of America" or "BofA") through the merger of a wholly-owned subsidiary of

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[2] A credit default swap is a payment by one party in exchange for a credit default protection payment if a credit default event on a referenced asset occurs. The amount of the payment is the difference between the original price of the reference asset and the recovery value of the referenced asset, http://www.tavakolistructuredfinance.com/CDS.pdf.

Bank of America with and into Merrill Lynch, with Merrill Lynch continuing as the surviving corporation and a wholly-owned subsidiary of Bank of America.

Deutsche Bank

13. Deutsche Bank AG is a German Bank with its principal office in Frankfurt, Germany. Deutsche Bank AG does business in the Southern District of California.

14. Deutsche Bank London is part of Duetsche Bank International, a universal bank with its headquarters in Frankfurt, Germany. The Deutsche Bank AG London Office is located at Winchester House, 1 Great Winchester Street, London.

15. Deutsche Bank AG Cayman Islands Branch is located in the Cayman Islands, a British Overseas Territory situated in the northern Caribbean. The Deutsche Bank Cayman office opened in 1983.

Goldman Sachs

INTERNATIONAL AND CAPITAL MARKETS L.P.

16. Goldman Sachs Group, Inc., is a bank holding company organized under the laws of the State of Delaware (Goldman Sachs). Goldman Sachs does business in the Southern District of California. Goldman Sachs Capital Markets L.P. underwrote and made markets in subprime mortgages including CDOs backed by subprime mortgages. Goldman bought credit default swaps (CDS) from AIG to cover Goldman Sachs' collateralized debt obligations (CDO) credit risks. Goldman Sachs engaged in its subprime CDO business directly and through

Goldman Sachs Capital Markets, L.P., and Goldman Sachs International.

17. Goldman Sachs Capital Markets, L.P. is a Delaware limited partnership. Goldman Sachs International is a regulated United Kingdom broker-dealer. Goldman Sachs International provides investment banking services. It provides investing, advisory, and financing services to a client base, which includes corporations, financial institutions, and governments. Goldman Sachs International operates as a subsidiary of Goldman Sachs Group, Investment Banking and Securities Investments. Goldman Sachs International's London Office address is Peterborough Court 133 Fleet Street.

18. Goldman Sachs Capital Markets, L.P. and Goldman Sachs International are wholly owned subsidiaries of Goldman Sachs.

19. At all times relevant to this operative complaint Goldman Sachs Capital Markets L.P. and Goldman Sachs International did business in the Southern District of California.

SOCIETE GENERALE

20. Societe Generale SA is a France-based banking group that does business in the Southern District of California.

21. Societe Generale was a major player in the CDO over-the-counter market (OTCM).

22. Doe defendants 1 through 100 are the agents, officers, employees, co-conspirators, aiders and abettors of the named defendants and acted unlawfully in violation of the False Claims Act as alleged herein.

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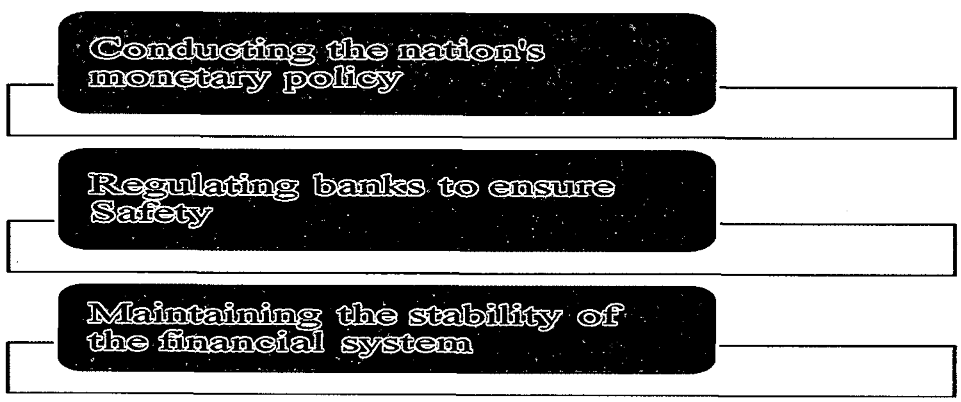
FEDERAL RESERVE

23. The Federal Reserve System (the Fed) serves as the nation's central bank. By an act of Congress, the Federal Reserve Act created 12 regional Federal Reserve banks, supervised by a Federal Reserve Board (Fed Board). The Fed was not authorized to provide loans to players in the CDO OTCM who lost funds because of their unlawful and fraudulent conduct.

24. The Federal Reserve's duties fall into three relevant general areas:



FEDERAL RESERVE BOARD

25. The Fed Board, headquartered in Washington, D.C., consists of seven members who are nominated by the United States President and confirmed by the Senate.

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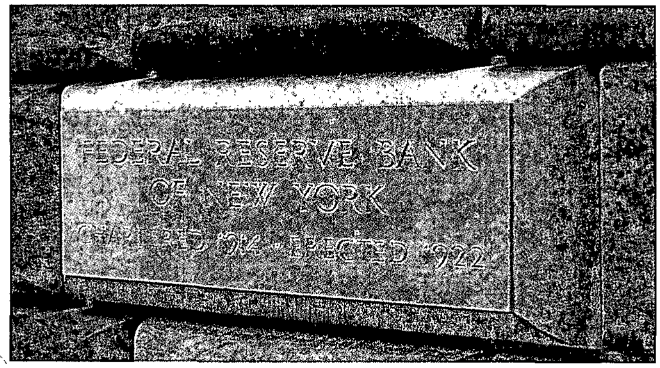
FEDERAL RESERVE BOARD OF NEW YORK



26. The Federal Reserve Bank of New York (FRBNY) is one of 12 regional Reserve Banks which, together with the Board of Governors in Washington, D.C., make up the Federal Reserve System.

U.S. DEPARTMENT OF TREASURY

27. The United States Treasury Department is the executive agency responsible for promoting economic prosperity and ensuring the financial security of the United States. The Department of the Treasury operates and maintains systems that are critical to the nation's financial infrastructure, such as the production of coin and currency, the disbursement of payments to the American public, revenue collection, and the borrowing of funds necessary to run the federal government.

III.

JURISDICTION AND VENUE

28. This action arises under the False Claims Act, 31 USC § 3729 *et seq.* This Court has jurisdiction over this case pursuant to 31 USC §§ 3732(a) and 3730(b). This court also has jurisdiction pursuant to 28 USC § 1345 and 28 USC § 1331.

29. Venue is proper in this District pursuant to 31 USC § 3732(a), because some of the acts proscribed by 31 USC § 3729 *et seq.* and complained of herein took place in this district, and is also proper pursuant to 28 USC § 1391(b) and (c), because at all times material and relevant, defendants transact and transacted business in this District. False claims were made by defendants to the federal government to induce the federal government to purchase cash flows from mortgages made in the Southern District of California secured by homes located in the Southern District of California. The residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs) purchased by the federal government are part of the Maiden Lane II and Maiden Lane III portfolio described in this operative complaint.

30. Substantially the same allegations or transactions as alleged in the action or claims have not been publicly disclosed. The plaintiffs and their counsel are the original source of the information forming the basis of this amended operative complaint.

31. The Casadys obtained information forming the basis of this complaint by direct first-hand examination of information from inside the mortgage industry. Further, the Casady's obtained this information by conducting first-hand analysis and computation of data and facts through the use of analytical procedures, historical research, and other established investigative methods used by certified fraud examiners.

32. The Casadys, through their counsel, voluntarily disclosed to the Government the information on which allegations or transactions in these claims are based before bringing the false claims case and before any public disclosure of the information. The Casadys and their counsel have knowledge that is independent of and materially adds to any publicly disclosed allegations or transactions and have voluntarily provided the information to the Government before filing this false claims action.

IV.

AIG ERODED ITS FINANCIAL CONDITION BY FRAUD

33. As detailed below, AIG engaged in a long course of fraudulent practices designed to load up AIG's financial statements with assets with inflated, false values. AIG was the subject of 3 Securities & Exchange Commission (SEC) fraud injunctions and 2 U.S. Department of

Justice criminal prosecutions. AIG is a fraud recidivist: Each time AIG was caught engaging in fraud it promised to reform its ways. Each time AIG reverted to its unlawful and fraudulent way of doing business.

34. Defendant AIG "borrowed" cash from Goldman Sachs, Deutsche Bank, Merrill Lynch (BofA), and Societe Generale[3] secured by securities AIG took from 11 AIG life insurance companies.

35. AIG then used the cash to buy high risk residential mortgage backed securities (RMBS) with the cash. Under its Securities Lending Program, AIG had to pay the cash back to the banks faster than the RMBS would pay cash to AIG. When the RMBS did not hold their fraudulently inflated values, AIG was unable to sell the RMBS because fraudulent practices destroyed their market.

36. Goldman Sachs, Deutsche Bank, Societe Generale, and Merrill Lynch lent AIG the cash to facilitate AIG's purchase of RMBS in order to support the RMBS market prices that, in turn, helped to support the inflated market value of CDOs the bank defendants held, sold or intended to sell.

37. AIG internally referred to the funds it borrowed as part of its spread-based borrowing and investing program as "cash collateral." AIG took an ever-increasing amount of cash collateral from its affiliated companies to run AIG's Securities Lending Program. By 2007, AIG had borrowed over $75 billion from Goldman Sachs, Deutsch Bank AG, Merrill Lynch (BofA), and Societe Generale:

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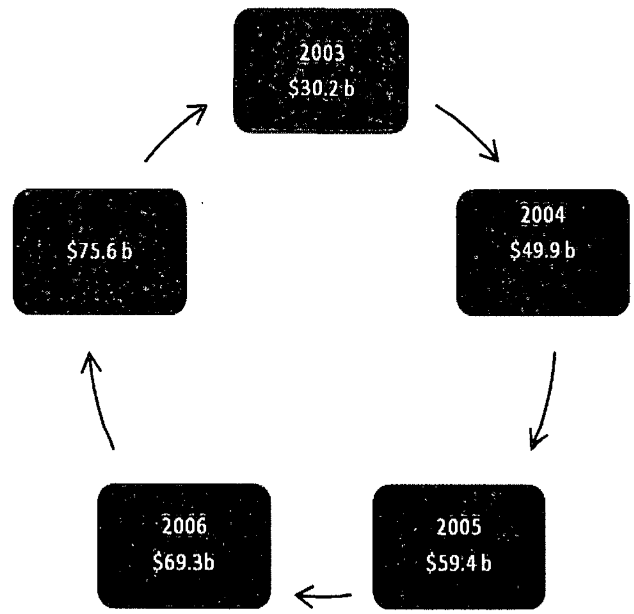
[3] There were 12 additional banks that participated in AIG's securities lending program.

Growth of AIG's Securities Lending Program 2003



38. The securities AIG diverted from its subsidiaries and used for AIG's spread-based borrowing and investing program (Securities Lending Program) grew from $10.5 billion in 2001 to $75.6 billion in 2007:

Year	General Insurance (millions)	Life Insurance (millions)	Life Insurance and Retirement	Asset Management	Total (millions)
2001	$0.992	$9.581			$10.573
2002	$7.249	$16.445			$23.694
2003	$5.225	$24.970			$30.195
2004	$4.889		$35.726	$9.357	$49.972
2005	$4.889		$42991	$11.549	$59.471
2006	$5.376		$50.099	$13.755	$69.306
2007	$5.031		$57.471	$13.012	$75.662
2008	$0.790		$3.054		$3.844

39. Goldman Sachs, Deutsche Bank, Merrill Lynch (BofA) and Societe Generale curtailed their participation in AIG's Securities Lending Program by returning lent securities and requiring the return of cash collateral. As a result, AIG's collateral pools did not have sufficient liquidity to satisfy these obligations. As of 30 September 2008, AIG submitted false claims to and had used at least $11.5 billion received from the $85 billion Fed Facility to provide liquidity to

the securities lending program. Of the collateral AIG was unable to repay, $18.5 billion was attributable to Goldman Sachs, Deutsche Bank, Merrill Lynch (BOA), and Societe Generale as follows:

Bank	Amount AIG Borrowed but Could Not Repay (billion)
Deutsche Bank	$6.4
Merrill Lynch (BofA)	$6.4
Goldman Sachs	$4.8
Societe Generale	$900 M
Total	$18.5

V.

FRAUD IN THE OVER-THE-COUNTER COLLATERALIZED DEBT MARKET

40. AIG's most ambitious fraudulent conduct was its practice of insuring high risk collateralized debt obligations (CDOs) with AIG-issued credit default swap contracts (CDS). Under the program, AIG sold protection against credit risks that could affect the value of CDOs purchased by Goldman Sachs Capital Markets L.P., Goldman Sachs International, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA) and Societe Generale.[4]

41. A CDO is a specific type of asset-backed security that is created through the securitization of various fixed income products. The basic purpose of this security is to hold assets as collateral and then sell the cash flow from the different "tranches," or credit quality tiers, to investors. The CDOs were structured so that the lower the seniority of payment, the higher yield on investment to compensate for the added risk. CDOs are divided into three different tranches: senior (AAA rated), mezzanine (AA to BB), and equity tranches, which are unrated.

42. Under the AIG-CDS contracts, Goldman Sachs, Goldman Sachs Capital Markets LP LP, Goldman Sachs International, Deutsche Bank AG, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA) and Societe Generale, bought credit risk protection from AIG and agreed to pay premiums to AIG (seller of credit risk

[4] These were AIG's biggest CDS customers but there were about 20 of them altogether.

protection) over a set period of time, usually for five years. AIG agreed to pay Goldman Sachs, Goldman Sachs Capital Markets LP, Goldman Sachs International, Deutsche Bank, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA) and Societe Generale an amount of loss created by a "credit event" related to the mortgages underlying the CDOs.

43. Under the CDS, AIG also agreed to make collateral payments to Goldman Sachs, Goldman Sachs Capital Markets LP, Goldman Sachs International, Deutsche Bank, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA) and Societe Generale in the event AIG's credit rating declined.

44. The CDS contracts AIG issued to defendants Goldman Sachs, Goldman Sachs Capital Markets LP, Goldman Sachs International, Deutsche Bank, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA) and Societe Generale allowed those banks to become major participants in the unregulated CDO over-the-counter market (OTCM).

45. Goldman Sachs, Goldman Sachs Capital Markets LP, Goldman Sachs International, AIG, AIGFP, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (Bank of America) and Societe Generale engaged in the CDO OTCM through a pattern of fraudulent conduct in which they (1) used unsafe, unsound and reckless underwriting practices and procedures, (2) failed to disclose material weaknesses in their internal controls, and (3) grossly overstated the value of the CDOs they purchased or insured.

46. In terms of the size of CDO exposure, Societe Generale, Goldman Sachs Capital Markets LP, Goldman Sachs International (collectively Goldman Sachs), Deutsche Bank AG London Brach, Deutsch Bank AG Cayman (Deutsche Bank) and Merrill Lynch had the greatest exposure to CDOs in the CDO OTCM as illustrated in the following Table:

Counterparties by Size of CDO ($ millions)		
Rank	Company	CDO Exposure
1	Societe Generale	$16,399
2	Goldman Sachs	$14,539
3.	Deutsche Bank	$ 7,638

4.	Merrill Lynch (B of A)	$ 6,377 $776
Total		$45,729

47. By late 2007, the unlawful and fraudulent practices that permeated the CDO OTCM destroyed the market to the point that it did not produce market prices for CDOs or RMBS. Internal emails exchanged by AIGFP's top executives in November 2007 documented the collapse of the RMBS and CDO market. The emails first explain that cash collateral calls from AIG's CDS counterparties were being disputed by AIG. The emails go on to document that the static CDO market was not even producing price information:

> Attached is a note from Andy Forster laying out all the collateral call information to date. Andy makes the point in his note that while **the collateral calls are being "disputed"** all the counterparties' are understanding and working with us in a positive framework toward seeking resolution **no one seems to know how to discern a market valuation price** from the current opaque market environment and no one is particularly excited about the issue being left open. All the market participants are keenly aware of the **dramatic lack of liquidity and inability to pursue price discovery** in the segment of the market.

A. AIG

48. AIG participated in the CDO OTCM by both insuring the fraudulent CDOs through AIGFP, and by purchasing RMBS with cash from Goldman Sachs, Deutsche Bank, Merrill Lynch (BofA) and Societe Generale.

49. AIG protected defendants Goldman Sachs, Deutsche Bank, Merrill Lynch (BofA) and Societe Generale from their CDO credit risks:

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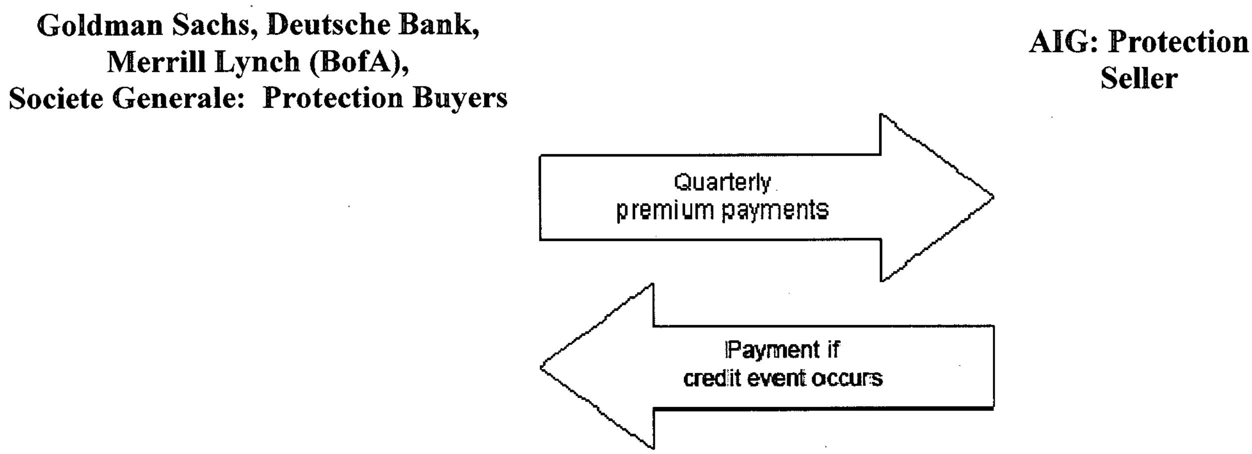
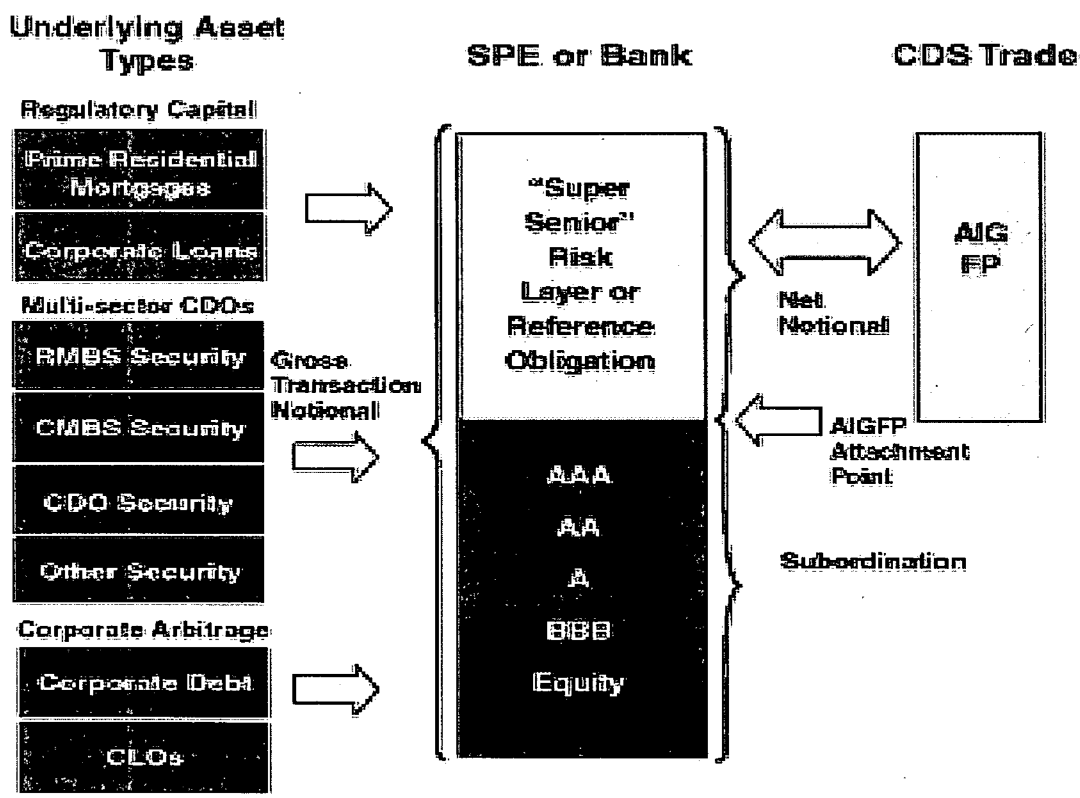


50. AIG's issuance of CDS to protect against CDO credit risk was an integral part of the CDO issuance process:



51. AIG and the co-defendants engaged in the unlawful conduct with the intent of loading up the balance sheets of their respective companies with fraudulently inflated assets, while draining their companies of cash in the form of dividend payouts, bonuses and salaries.

52. AIG issued CDS on the following CDOs in amounts that were fraudulently inflated. Also included are cash collateral amounts paid by AIG under the AIG-issued CDS:

COUNTERPARTY DEFENDANT BANK OF AMERICA		
Date	CDS Agreement	
10 Nov 08	11 October 1996 B OF A ISDA Master Agreement	
Credit Derivative Transactions CUSIP	Tranche Name	Notional Exposure Collateral Posted
589368AA7	MRCY 2005-2A A1	$772,111,117 $267,404,090
COUNTERPARTY DEFENDANT DEUTSCHE BANK AG LONDON		
Date	CDS Agreement	
10 Nov 08	13 September 1995 DB London ISDA Master Agreement	
CREDIT DERIVATIVE TRANSACTIONS		
CUSIP	Tranche Name	Notional Exposure Collateral Posted
G6878DAA8	PALIS 2004-1X A1A	$137,981,310 $1,556,254
COUNTERPARTY DEFENDANT DEUTSCHE BANK AG CAYMAN ISLANDS BRANCH		
Date	Agreement	
10 Nov 08	13 September 1995 DB London ISDA Master Agreement	
CREDIT DERIVATIVE TRANSACTIONS		
CUSIP	Tranche Name	Notional Exposure Collateral Posted
521764AG5	LEAFS 2002-1A A1C	$844, 492, 047 $106,999,907
577734AA4	MAX 2007-1A A-1	$2,096,537,000 $1,567,311,089
577734AP1	MAC 2008-1 A-1	$5,403,463,000 $4,039,474,369
86331YAL8	STRIPS III 2003-1 AFLT	$35,883,609 $0
Total Notional Exposure		$8,380,375,656
Total Collateral Posted		$5,713,785,365

COUNTERPARTY DEFENDANT GOLDMAN SACHS CAPITAL MARKETS AND INTERNATIONAL		
Date	Agreement	
10 Nov 2008	19 August 2003 GS ISDA Master Agreement or 17 October 1990 ISDA Interest Rate and Currency Exchange Agreement	
CREDIT DERIVATIVE TRANSACTIONS		
CUSIP	Tranche Name	Notional Exposure Collateral Posted
48206AAG3	JPTR 2005-3A A1NV	$1,178,880,487 $809,568,470
952186AB0	WESTC 2006-1A A1B	$1,187,850,000 $800,050,235
952186AA2	WESTC 2006-1A A1A	$1,055,261, 964 $671,530,476
896008AC3	TRIAX 2006-2A A B2	$1,499,850,000, $640, 659, 927
896008AB5	TRIAX 2006-2AA1B1	$1,488,180,701 $640,669,927
02149WAA5	ALTS 2005-2A A1	$1,075,774,844 $584,566,581
68619MAQ4,	ORPT 2005-1A A1VB	$641,913,250 $460,605,880
8619MAL5	ORPT 2005-1A A1VF	$639,443,403 $458,833,637
498588AO6	KLROS 2006-AA1NV	$791,093,942 $442,543,147
442451AAB	HOUT 2006-1A A1AIG	$747,122,522 $442,543,147
83743YAS2,	SCF 7A A1AN	$442,192,152 $321,400,704
112021AC4	BROD 2005-1A A1B1	$457,805,266 $298,284,736
82437XAA6	SHWEW 2005-2A A1	$296,485,307 $228,425,707
34958CAA2	FORTS 2006-1A A1	$325,935,452 $222,869,594
112021AB6	BROD 2005-1A A1NV	$334,622,618 $218,024,620
83743LAO5	SCF 8A A1NV	$264,686,822 $202,220,037
446279AA9	HUNTN 2005-1A A1A	$335,590,683 $187,540,421
76112CAB4	RESF 2004-1A A1NV	$292,713,392 $171,276,411
46426RAA7	ICM 2005 2A A1A	$176,951,173 $130,474,880
216444AA7	COOL 2005-1A A1	$190,351,823 $115,271,719

52902TAO0	LEXIN 2005-1AA1AN	$135,535,567 $101,906,122
26545QAQ2	DUNHL 2004-1AA1NV	$152,147,155 $85,798,709
768277AA3	RIVER 2005-1AA1	$127,184,116 $79,735,434
58936RAB3	MRCY 2004-1AA1NV	$160,883,690 $75,735,434
37638VAG8	GLCR 2004-2AA1NV	$143,005,791 $61,657,090
80410RAA4	SATV 2005-1AA1	$99,236,194 $54,177,256
68571UAA7	ORCHD 2005-2AA1	$61,173,384 $41,264,742
46426RAB5	ICM 2005-2AA1B	$41,392,087 $30,530,440
112021AA8	BROD 2005-1A A1V	$235,982 $0
26545QAA7	DUNHL 2004-1A A1VA	$116,268 $0
37638VAA1	GLCR 2004-2A A1V	$44,029 $0
446279AC5	HUNTN 2005-1A A1B	$218,690 $0
48206AAA6	JPTR 2005-3A A1VA	$226,795 $0
498588AA0	KLROS 2006-2A A1V	$227,457 $0
52902TAE6	LEXN 2005-1A A1B	$169,844 $0
58936RAA5	MRCY 2004-1AA1VA	$53,653 $0
68619MAJ0	ORPT 2005-1A A1VA	$246,985 $0
76112CAA6	RESF 2004-1A A1V	$78,099 $0
83743YAB9	SCF 7A A1B	$142,919 $0
83743LAA9	SCF 8A A1AV	$192,080 $0
264403AJ5	DUKEF 2004-7A1A2	$101,776,989 $50,492, 887
55311TAA2	MKP 3A A1	$7,573,118 $923,883
264403AK2	DUKEF 2004-7A1A2V	$78,501 $0
Total Notional Exposure		$14,474,645,172
Total Collateral Posted		$8,636,244,772

COUNTERPARTY DEFENDANT MERRILL LYNCH		
Date	Agreement	
10 Nov 2008	1 October 1994 ML ISDA Master Agreement	
CREDIT DERIVATIVE TRANSACTIONS		
CUSIP	Tranche Name	Notional Exposure Collateral Posted
89108AA4	TORO 2005-1A A	$845,589,528 $$465,475,530
085558AA2	BNLI 2006-1A A1A	$496,409,791 $439,810,803
34667AA4	FISHR 2005-1A A1	$726,309,876 $416,810,803
48205YAA5	JPTR 2005-2A A1	$730,005,401 $354,433,660
45377TAA4	DUKEF 2005 8A A1S	$593,139,612 $351,827,214
45377TAA4	INDE6 6A A1	$255, 238,556
0VAA8	STRVL 2004-1A A1	$431,629,323 $149,051,969
863286AA8	KLROS 2005-1A A1	$342,362,711 $125,541,830
64069RAA2	NEPTN 2005-2A A1	$148,707,002 $101,506,317
37638XAA7	GLCR 2005-3A A1	$232,235,624
80AA7	MNPT 2006-1A A1	$77,392,822 $76,189,575
58936RAN7	MRCY 2004-1A A1VB	$177,090,112 $58,623,523
147276AA7	CASF 2004-1A A1	$179,360,155 $57,819,432
640699AA2	NEPTN 2004-1A A1LA	$101,950,809 $56,819,432
84129VAA9	SCF 5A A1	$106,521,790 $3,086,130
84129VAA9	STRAG 2004-2A A1	$94,150,454 $941,505
83743TAA2	SCF 4A A1	$58,415,121 $658,221
Total Notional Exposure		$6,223,814,579
Total Collateral Posted		$3,110,396,153
COUNTERPARTY DEFENDANT SOCIETE GENERALE		
Date	Agreement	
10 Nov 2008	12 July 1998 ISDA Interest Rate and Currency Exchange Agreement	

CREDIT DERIVATIVE TRANSACTIONS		
CUSIP	Tranche Name	Notional Exposure Agreed Exposure Collateral Posted
007019AA0	ADROC 2005-1A A1LT	$142,859,741 $66,972,790 $70,321,430
007019AH5	ADROC 2005-1A CP	$919,521,441 $431,072,452 $452,626,198
007022AA4	ADROC 2005 2A A1LT	$164,604,542 $74,459,171 $78,182,130
007022AF3	ADROC 2005-2A CP	$1,049,861,004 $474,906,581 $498,651,911
02149RAB4	ALEXP 2004-1A A1	$60,523,619 $39,340,352 $41,307,370
02149RAC2	ALTS 2005-1A ALTA	$218,949,605 $98,911,274 $103,856,838
02149RAC2	ALTS 2005-1A ALTB-1	$1,228,360,968 $554,916,499 $582,662,324
05539MAA8	BFCGE 2006-1A A1LA	$172,995,268 $159,156,646 $167,113,429
078446AA9	BLHV 2004-1a a1st	$265,228,814 $186,237,310 $195,549,175
078446AG6	BHLV 2004-1A A1SB1	$397,843,791 $279,356,364 $293,324,182
131899AB2	CAMBR 3A A1	$335,470,948 $248,921,045 $261,367,097
23910PAJ4	DVSQ 2004-2A A1 D	$234,658,713 $77,080,213 $80,934,224
23910TAB3	DVSQ 2005-4A A1LT	$359,663,474 $224,376,021 $235,594,822
23910TAG2	DVSQ 2005-4A CP	$882,943,929 $550,793,849 $578,333,543
23910VAB8	DVSQ 2006-6A A1A	$271,897,232 $206,586,583 $216,915,913
23910VAD4	DVSQ 2005-6A CP	$1,157,051,809 $879,123,895 $923,080,090

26441EAA9	DUKEF 2005-HG1A A1LT	$627,829,224 $342,166,927 $359,275,273
26441EAL5	DUKEF 2005-HG 1A A1B1	$1,464,245,678 $798,013,870 $837,914,564
36293XAB3	GSFIN 2005-1A A1A	$146,418,839 $71,969,377 $75,567,846
3629XAC1	GSFIN 2005-1A CP	$953,894,728 $458,027,747 $480,929,134
507161AA5	LGNA 2004-1A A1ST	$418,343,830 $276,842,925 $290,685,072
507161AD9	LGNA 2004-1A A1SB1	$627,515,745 $415,264,388 $436,027,608
5120VAA8	LAKES 2004-1A A1	$81,822,507 $22,042,983 $23,145,132
553121AA2	MKP 4A A1	$77,084,595 $50,104,987 $52,610,236
55312WAA4	MKP 5A A1	$407,755,039 $399,074,422 $419,028,143
56659NAA3	MGATE 2004-1A A1S	$597,015,142 $171,164,241 $179,722,453
640699AA2	NEPIN 2004-1A A1LA	$101,950,809 $63,209,501 $66,369,976
746869AP1	PTNM 2002-1A A-1LT-d	$167,280,752 $43,707,063 $45,892,416
746869AR7	PTNM 2002-1A A-1LT-e	$167,280,752 $43,707,063 $45,892,416
74869BE5	PTNM 2002-1A A-1LT-j	$167,280,752 $43,707,063 $45,892,416
82437RAA9	SHERW 2004-1A A1	$152,520,850 $123,550,842 $129,728,384
82639RAA5	MADRE 2004-1A CP	$926,649,164 $416,167,303 $436,975,668
82639RAB3	MADRE 2004-1A A1A	$392,232,450 $187,520,400 $196,896,420

83743TAA2	SCF 4A A1	$15,762,207 $802,296 $842,411
863286AA8	STRVL 2004-1A A1	$132,809,022 $45,867,370 $48,160,739
87337UAA2	TABS 2005-4A A	$248,823,841 $232,758,363 $244,396,282
97741PAA2	WITH 2004-1A A1	$204,839,483 $106,516,531 $111,842,358
97741PAL8	WITH 2004-1A A11A CP	$477,958,813 $248,538,583 $260,965,512
Total Notional		$16,419,769,121
Total Agreed Notional		$9,112,934,411
Collateral Posted		$9,568,581,132

53. The Counterparty defendants shared 9 CDO investments as illustrated in the following table:

CDO: ALTS 2005-1A ALTA, ALTS 2005-1A ALTB-1, ALTS 2005-2A A1		
Societe Generale	Goldman Sachs	
CDO: GLCR 2004-2A A1V, GLCR 2004-2AA 1NV, GLCR 2005-3A A1		
Goldman Sachs	Merrill Lynch	
CDO: KLROS 2005-1A A1,KLROS 2006-2A A1V, KLROS 2006-AA1NV		
Merrill Lynch	Goldman Sachs	
CDO: SCF 4A A1, SCF 5A A1,SCF 7A A1AN, SCF 7A A1B, SCF 8A A1AV, SCF 8A A1NV		
Merrill Lynch	Societe Generale	Goldman Sachs
CDO: DUKEF 2004-7A1A2, DUKEF 2005 8A A1S, DUKEF 2005-HG 1A A1B1		
Goldman Sachs	Merrill Lynch	Societe Generale
JPTR 2005-2A A1, JPTR 2005-3A A1NV, JPTR 2005-3A A1VA		
Merrill Lynch	Goldman Sachs	
MKP 3A A1, MKP 4A A1, MKP 5A A1		
Goldman Sachs	Societe Generale	
SHERW 2004-1A A1, SHWEW 2005-2A A1		
Societe Generale	Goldman Sachs	
STRVL 2004-1A A1		
Societe Generale	Merrill Lynch	

54. While writing CDS on CDOs at levels AIG could not cover, and then diverting and investing cash in RMBS, AIG paid out $8 billion in dividends over the period of 2004 to 2008:

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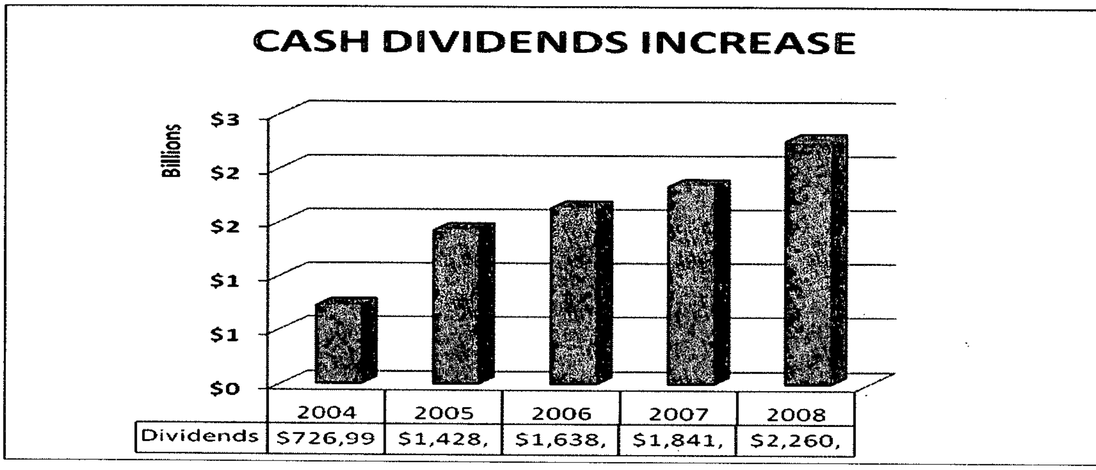


55. AIG also paid hundreds of millions of dollars of bonuses based on the fraudulent revenues and assets booked on AIG's financial statements, inflated by AIG's fraudulent CDS and RMBS positions. AIGFP paid its employees approximately $423 million, $544 million and $481 million in 2007, 2006 and 2005, respectively.[5]

B. GOLDMAN SACHS

56. Goldman Sachs bought and converted into high-yield bonds tens of thousands of mortgages from subprime and other lenders through securitization and issuance of CDOs. The following table reports the CDOs issued by defendant Goldman Sachs in the CDO OTCM:

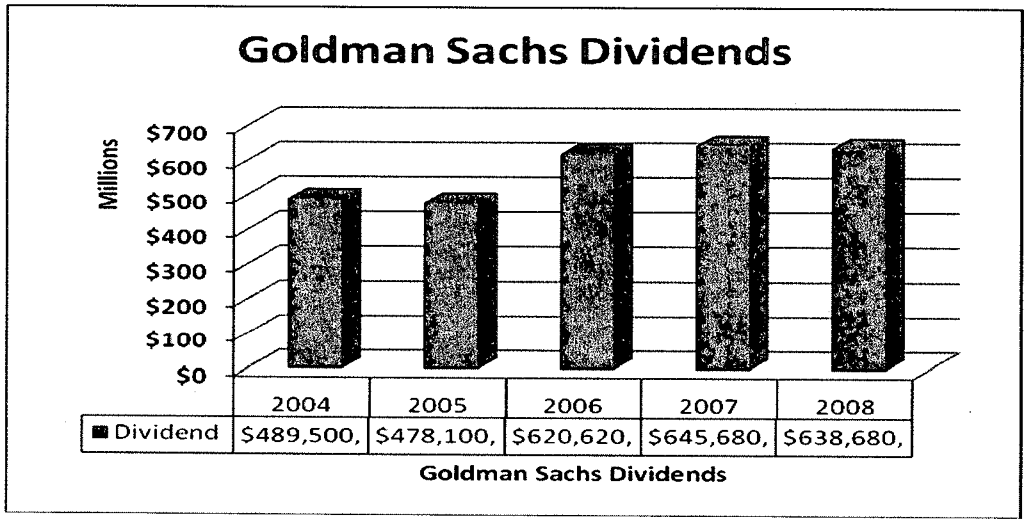
YEAR	AMOUNT OF CDO SECURITIZATIONS (Billions)	RESIDENTIAL	COMMERCIAL	OTHER
2003	$95.00			
2004	$62.93	$47.46		
2005	$92.00	$65.18		
2006	$103.92	$67.73	12.78	$23.41
2007	$81.40	$24.95	$19.50	$36.95
2008	$14.458	$6.671	$.773	$7.014

57. Goldman Sachs engaged in conduct that caused the underlying CDO and RMBS market to collapse. In 2006 and 2007, Goldman Sachs sold as AAA-quality more than $40 billion in securities backed by at least 200,000 risky home mortgages. Goldman Sachs knew mortgage underwriting standards had deteriorated to dangerous levels and that CDOs issued based on defective mortgages had flooded the CDO markets. AIG wrote protection for Goldman

[5] AIG 2007 10K p. 99, Summary, Ex. 140.

Sachs dishonest and fraudulent CDOs.

58. Goldman Sachs paid out over $2.75 billion in dividends while Goldman Sachs was engaged in the CDO OTCM fraud:



59. Goldman also paid more than several billion of bonuses to its officers and employees based upon the results produced by its CDO OTCM fraud.

C. MERRILL LYNCH (BANK OF AMERICA)

60. Merrill Lynch became a publicly traded company on 23 June 1971. Merrill Lynch & Company Inc is a Delaware holding company. Merrill Lynch engaged in the financial services business through directly and through its subsidiaries.

61. Merrill Lynch (BofA) engaged in fraudulent mortgage practices through Merrill Lynch Mortgage Lending, Inc. ("MLML"), a dealer in whole loan mortgages, mortgage loan participations, and commercial mortgage conduits. MLML purchased commercial and residential mortgage loans and then securitized those loans for sale to investors. MLML purchased prime, subprime, nonperforming and subperforming residential mortgage loans from originators of these loans and aggregated those loans for sale in the securitization market.

62. Merrill Lynch (BofA) securitized commercial and residential mortgage and home equity loans. Merrill Lynch used Variable Interest Entities (VIEs)[6] to facilitate Merrill Lynch's (BofA) CDO securitization transactions.

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[6] **Investopedia explains *Variable Interest Entity - VIE***

63. Merrill Lynch used Special Purpose Entities (SPEs)[7] to securitize financial assets including: structuring and/or establishing SPEs; selling assets to SPEs; managing or servicing assets held by SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

64. In 2004, Merrill Lynch purchased Wilshire Credit Corporation, one of the leading companies in the subprime, nonperforming and reperforming residential mortgage special servicing markets.

65. Merrill Lynch participated in the CDO OTCM by originating the following mortgage securitizations:

YEAR	AMOUNT OF CDO SECURITIZATIONS (Billions)	RESIDENTIAL	COMMERCIAL OTHER
2003	$61.9	$43.7	$6.0
2004	$65.9	$45.9	$8.4
2005	$91.1	$57.9	$13.56
2006	$147.2	$97.4	$17.98
2007	$175.9	$100	$20.2
2008			

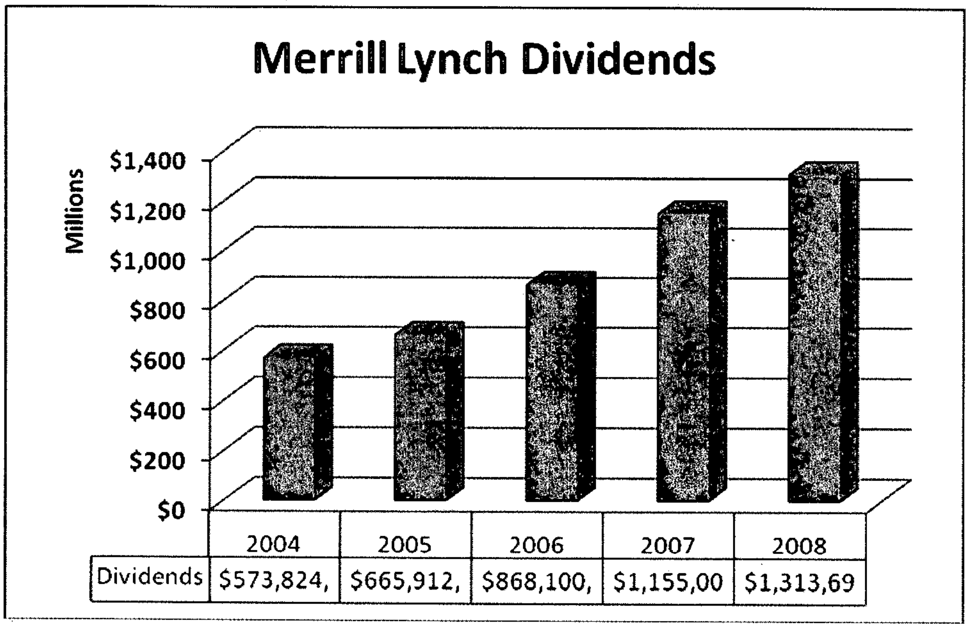
66. On 28 July 2008, Merrill Lynch (BofA) admitted that its Asset Backed Securities (ABS) CDO portfolio had a value $24 billion **less than** its par value. Merrill Lynch (BofA) agreed to sell $30.6 billion gross notional amount of U.S. "super senior" ABS CDOs (the "Portfolio") to Lone Star, a Dallas-based private equity fund, for $6.7 billion. The transaction closed on 18 September 2008.

67. Merrill Lynch (BofA) paid out over $5 billion in dividends over the period of 2004 to 2008 -- the period in which AIG was engaged in the alleged fraudulent conduct as follows:

/ / /

VIEs are commonly used within financial firms for their subprime mortgage-backed securities. They can be a special-purpose vehicle (SPV) that allows firms to keep assets off of their balance sheets. A corporation can use such a vehicle to finance an investment without putting the entire firm at risk. The problem, as with SPVs in the past, is that they have become a method of hiding things (such as subprime exposure).

[7] A Special Purpose Entity (SPE), also referred to as Special Purpose Vehicles (SPV), are entities whose operations are limited to the acquisition and financing of specific assets. SPEs are often subsidiary corporations designed to serve as a counterparty for swaps and other credit sensitive derivative instruments.



68. Merrill Lynch (BofA) paid out more than several billion in bonuses to its officers and employees based upon the results produced by its CDO OTCM fraud.

D. SOCIETE GENERALE

69. Societe Generale was one of the biggest players in the CDO OTCM. AIGFP owned and operated a bank in Paris, France, Banque AIG. Societe Generale and Banque AIG had a close working relationship.

70. Societe Generale had at least a total of EUR $50 billion of CDO under management in 2007. Societe Generale's portfolio was as follows:

Year	Total ($ EUR)	CDS	Synthetic CDO	CDO
2004	$6.5			
2005	$8.5	$6.9		$1.6
2006	$26.4	$15.6		$10.8
2007	$50.5	$24	$26.5	
2008	$43.8	$28.2	$15.6	

71. Societe Generale also participated in the CDO OTCM through its Los Angeles-based subsidiary, TCW Asset Management (TCW), which Societe Generale acquired in 2001. In

2007 TCW had over $52 billion of collateralized debt obligations under management. TCW managed fraudulently issued CDOs.

72. While under Societe Generale's control, TCW personnel systematically accumulated impaired and high risk mortgages in CDOs it managed in order to increase fees earned by TCW. For example, TCW personnel packed a Goldman Sachs-issued CDO called Davis Square Funding III Ltd. with flawed and defective mortgages. By May 2008, many of the bonds in Davis Square Funding Ltd. were worthless.

73. The fee structure encouraged TCW to put lower-rated bonds into CDOs over time. Many of the flawed mortgages were "collateral replacements." AIG wrote CDS for Davis Square Funding III Ltd.. AIG ended up paying $616 million to make up for Davis Square III's loss in value.

74. TCW personnel, following criteria set by Goldman Sachs, changed almost one-third of the collateral in Davis Square III after the CDO's creation in 2004. The securities were mostly backed by the types of newer loans that went bad at more than twice the rate of older ones.

75. Replacing good collateral with bad helped erode Davis Square III's value. Declines in quality added to the cash AIG had to pay to holders of its insurance because AIG CDS included what are called "collateral triggers." The collateral triggers kicked in when either the value of the CDOs declined or when a rating company downgraded AIG's creditworthiness.

E. DEUTSCHE BANK

76. Deutsche Bank participated in the CDO OTCM through third party-securitizations it sponsored. Deutsche Bank provided financing to third party-managed investment vehicles that Deutsche Bank represented purchased diversified pools of assets, including fixed income securities, corporate loans, asset-backed securities (predominantly commercial mortgage backed securities, residential mortgage backed securities and credit card receivables) and film rights receivables.

77. Deutsche Bank's financing arrangements with these investment vehicles took various forms. For example, in 2007 Deutsche Bank provided such financing for: warehousing lines during the ramp-up period of the securitization (€ 4.8 billion, with € 1.5 billion drawn),

variable funding notes (VFNs) issued by the securitization vehicles that contain funding commitments by the note purchaser up to a pre-defined amount (€ 8.1 billion, with € 5.0 billion drawn), and ongoing liquidity commitments (€ 1.9 billion, with € 0.1 billion drawn).

78. The Deutsche Bank investment vehicles funded the purchases of underlying assets by issuing multiple tranches of debt and equity securities, the repayment of which is linked to the performance of the assets in the vehicles. The amounts by year were as follows:

Year	Amount (Euro € billion)	Residential	Commercial, Other
2004	$14	$8.778	$5.4
2005	$25.5	$11.483	$14.10
2006	$36.7	$19.73	$17.00
2007	$30.2		
2008			
Total			

79. Deutsche Bank, like its co-defendants, knowingly inflated the value of the securitization products it sold into the OTCM market.

80. Deutsche Bank, like its co-defendants, paid billions of dollars in dividends while it fraudulently participated in the CDO OTCM.

81. Deutsche Bank paid hundreds of millions of dollars of bonuses based on its fraudulent CDO OTCM performance.

VI.

AIG INTERNAL HEDGE FUND FRAUD

82. AIG "strayed from its competencies in the insurance business" [8] and "grew to become an internal hedge fund" (AIG Internal Hedge Fund)[9] over which "there was no regulatory oversight" [10] and "which then became substantially overexposed to market risk."[11] Mistakes were made in connection with the AIG Internal Hedge Fund "on a scale few could have ever

[8] Statement of AIG CEO Edward Liddy (Liddy Statement) before the House Financial Services Committee 18 March 2009, Summary of Evidence Filed (Summary) with this originally-filedoperative Complaint, Ex. 56 .
[9] Statement of AIG CEO Edward Liddy before the House Financial Services Committee 19 March 2009, Summary Ex. 56.
[10] Liddy Statement, Summary Ex. 56.
[11] Liddy Statement, Summary Ex.56.

imagined." [12]

83. A hedge fund is an investment fund open to a limited range of investors. Hedge funds undertake a wider range of investment and trading activities. Hedge funds raise large sums from sophisticated investors without registration with the Securities & Exchange Commission (SEC). [13]

84. The AIG Internal Hedge Fund was formed under AIG's long time Chief Executive Officer Maurice Greenberg. Mr. Greenberg headed AIG for 35 years (1968-2005). [14] Mr. Greenberg was Deputy Chairman of the New York Fed in 1992 and 1993, and New York Fed Chairman in 1994.[15] Mr. Greenberg was on the New York Fed advisory committee that assisted the New York Fed Chair that selected Timothy Geithner to serve as President and CEO of the New York Fed.[16]

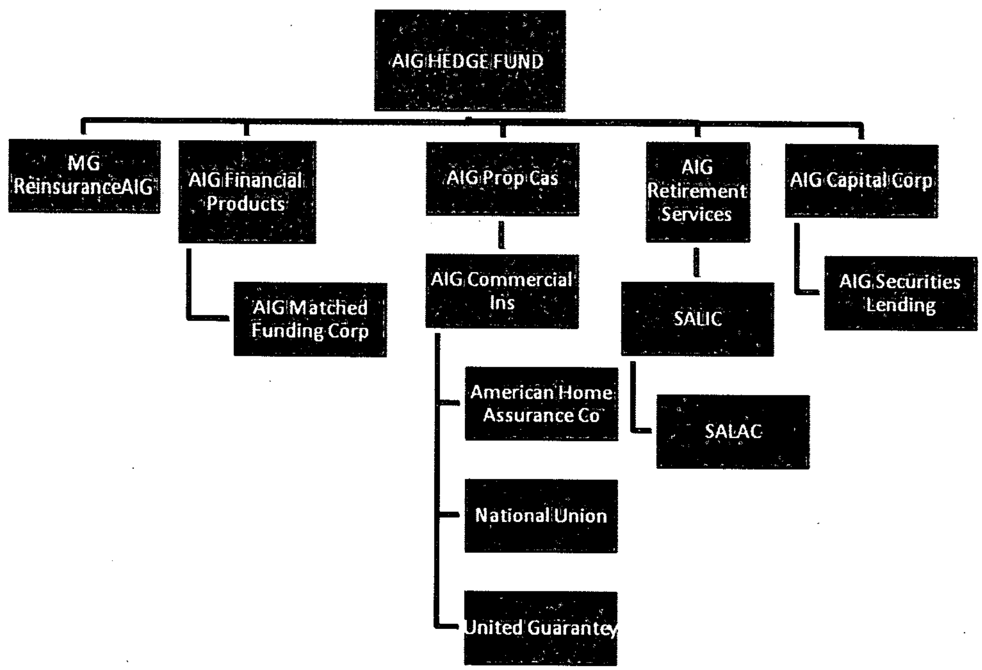
85. Mr. Greenberg owned 45,307,097 shares of AIG common stock as of May 2004, which was trading at approximately $70 per share, which would have made Mr. Greenberg's AIG stock portfolio worth $3,171,496,790. [17] Mr. Greenberg's annual compensation in 2003 was $1 million salary, a $6.5 million bonus, and 750,000 AIG stock option shares.[18] Mr. Greenberg was the AIG CEO when it was prosecuted by the DOJ and SEC for serious financial fraud violations discussed below. Mr. Greenberg left AIG in March 2005 and was replaced by Martin J. Sullivan on 14 March 2005. [19]

86. AIG has admitted that its business model was to operate AIG as **a sprawl of $1 trillion of insurance and financial services businesses, whose credit rating was used to backstop a $2 trillion dollar financial products trading business.**

87. The 13 AIG subsidiaries fused with AIG to create and operate the AIG Internal Hedge Fund are AIG Retirement Services Inc. (AIGRS), AIG Financial Products Corp. (AIGFP),

[12] Liddy Statement, Summary Ex. 56.
[13] GAO Hedge Fund Report p. 9, Summary Ex. 137.
[14] 28 March 2005 M.R. Greenberg to Retire from AIG, Summary, Ex. 150.
[15] 22 December 1991 Reuters New York Fed names new directors Summary, Ex. 146; 19 January 1994 Dow Jones Fed Reserve Bank of New York Names Greenberg Chairman Summary, Ex. 147.
[16] 15 October 2003 New York Fed Press Release, Summary, Ex. 148.
[17] Form Def 14A Form 5 April 2004 p. 7 Summary, Ex. 155; Yahoofinance.com
[18] Form Def 14A Form 5 April 2004 p 8, Summary, Ex. 155.
[19] AIG 14 March 2005 news release, Board implements succession plan, Summary, Ex. 149.

AIG Securities Lending, AIG Matched Funding Corp, SunAmerica Life Insurance Co. (SALIC), SALAC, United Guaranty, MG Reinsurance, Western National Life Insurance Company, National Union Fire Insurance Company of Pittsburg (National Union), AIG Commercial Insurance, AIG Property and Casualty, and American Home Assurance Company (AHAC). Table 1 illustrates the organizational relationship amongst and between AIG and the 13 AIG subsidiaries operating the AIG Internal Hedge Fund:



88. AIG forced at least 13 of its subsidiaries into AIG's Internal Hedge Fund and in the process destroyed the separate personalities of AIG and the 13 subsidiaries. Thus, there is a unity of interest and ownership between AIG and the 13 subsidiaries that joined together to create and operate AIG's Internal Hedge Fund.

89. AIG and the 13 AIG subsidiaries operating the AIG Internal Hedge Fund engaged in fraudulent conduct described in this amended operative complaint. AIG did not disclose to its annuity holders, its stockholders, or policy holders it was engaged in the fraudulent conduct described in this operative complaint that presented material and substantial risk that AIG would not be able to continue as a going concern.

90. Hedge funds pool investors' money and "seek to profit in all kinds of markets by pursuing leveraging and other speculative investment practices that may increase the risk of

investment loss."[20] Hedge fund investors normally get to choose whether to invest in a hedge fund, based on the hedge fund manager's risk appetite or investment strategy.[21]

91. As an internal hedge fund, AIG used its own capital to trade and invest, rather than new investor funds.[22] Thus, when Mr. Liddy said AIG had grown into an "internal" hedge fund he was stating that AIG was using its own internal capital to fund the AIG Internal Hedge Fund.[23] AIG treated the capital of 11 AIG life insurance companies as AIG Internal Hedge Fund capital.

92. The AIG Internal Hedge Fund became "overexposed to market risk" because AIG pledged SunAmerica Annuity and Life Assurance Co. (SALAC) and other AIG life insurance company reserves to obtain $75 billion in short term borrowings AIG used to make long term investments in subprime[24] and Alt-A[25] loans in the form of RMBS.[26]

93. AIG's reckless hedge fund-like speculations in $75 billion of RMBS and $527 billion of credit default swaps (CDS) written on CDOs was cited by AIG as the cause of its financial collapse in September 2008.[27] As a result, "**AIG had hundreds of billions of dollars in commitments without the capital assets to back them up**."[28]

94. AIG annuitants, depositors, and policy holders were forced to participate in AIG's Internal Hedge Fund. Over $75 billion was pulled out of AIG's 11 life insurance companies without adequate disclosure. Normally, hedge fund managers get the freedom to raise and use investor money in hedge funds because only sophisticated investors are allowed to participate. In

[20] SEC, ***Hedging Your Bets:A Heads Up on Hedge Funds and Funds of Hedge Funds*** http://www.sec.gov/answers/hedge.htm

[21] SEC, ***Hedging Your Bets: A Heads Up on Hedge Funds and Funds of Hedge Funds*** http://www.sec.gov/answers/hedge.htm

[22] SEC, ***Hedging Your Bets: A Heads Up on Hedge Funds and Funds of Hedge Funds*** http://www.sec.gov/answers/hedge.htm

[23] 13 April 2007 Moody's Assigning Unsecured Credit Ratings to Hedge Funds p. 6, Summary Ex. 127.

[24] Subprime loans pay a higher interest rate because the borrower's have to pay an interest rate above prime because they do not have the credit to qualify for a prime interest rate loan, Investopedia. http://www.investopedia.com/terms/s/subprimeloan.asp

[25] Subprime loans pay a higher interest rate because borrower's cannot qualify for a prime interest rate loan. http://www.investopedia.com/terms/s/subprimeloan.asp

[26] SALAC 2008 Annual Statement p. 19.14-19.16, Summary Ex.64; Eisenbeis, Bob Cumberland Advisors An Interesting Hearing: AIG p. 3, March 2009, Summary Ex. 128.

[27] AIG 2008 10-K p. 40, Summary, Ex. 52.

[28] 27 January 2010 Statement of Secretary Timothy Geithner before House Committee on Oversight Summary, Ex. 60.

fact, "hedge funds must refrain from advertising to the general public and can solicit participation in the fund from only certain large institutions and wealthy individuals."[29]

95. Federal Reserve Chairman Ben Bernanke agrees. In his congressional testimony he also admitted, "AIG built up its concentrated exposure to the subprime mortgage market"[30] through AIG's "Financial Products Division."[31]

VII.

AIG'S LONG HISTORY OF FRAUD

A. AIG'S FIVE FRAUDULENT ACTS

96. AIG had a long history of fraudulent conduct that eroded the financial condition of AIG's core businesses. AIG's reckless intervention into the RMBS and CDS markets was part of a desperate plan AIG adopted to recoup its significant losses from past fraud.

97. AIG engaged in five interdependent fraudulent and unlawful business practices: (1) pooling funds from AIG insurance companies into the AIG Internal Hedge Fund, with the intent to speculate in violation of investment prudency rules; (2) selling sham and fraudulent insurance and financial products like CDS AIG sold in the CDO OTCM; (3) using sham and fraudulent reinsurance, guarantees, and support agreements; (4) rigging auction markets for insurance and financial products; and (5) misrepresenting AIG's financial condition:

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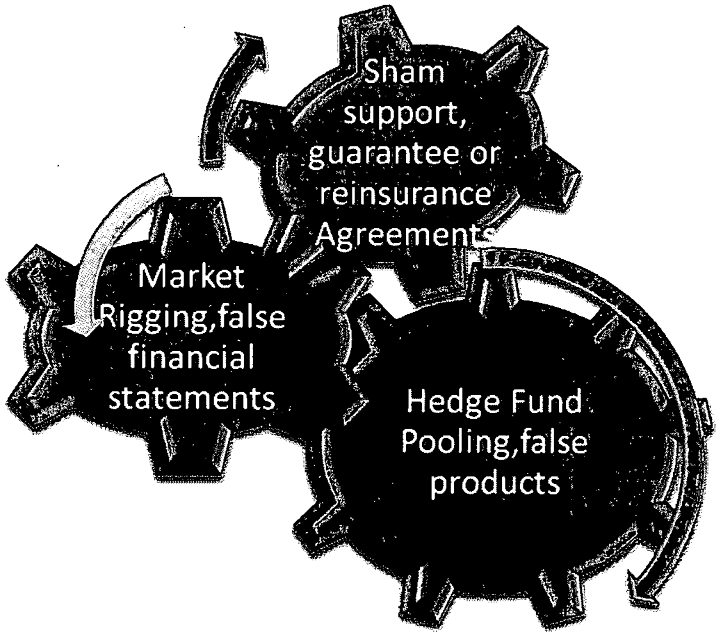
[29] January 2008 GAO report to Congress on Hedge Funds pp 9-10, Summary, Ex. 138.
[30] 24 March 2009 Statement by Ben Bernanke before the House Financial Services Committee, Summary Ex. 102.
[31] 3 March 2009 Statement by Ben S. Bernanke before the Committee on the Budget US Senate Summary, Ex. 57; www.senate.gov/fplayers/commplayer/commflashplayer.cfm?fn=budget03309&st=1055. (tape at 44:00).



B. SEC FRAUD INJUNCTIONS AGAINST AIG

98. AIG was the subject of 3 fraud injunctions issued in cases brought against AIG by the United States Securities & Exchange Commission (SEC) and 2 criminal deferred prosecutions brought by the US Department of Justice. The SEC Litigation Release numbers for the 3 SEC fraud injunctions against AIG are: (1) SEC Litigation Release No. 18340 (Brightpoint 2003); (2) SEC Litigation Release No. 18985 (PNC 2004); (3) SEC Litigation Release No. 19460 (Gen Re, Capco 2006).

99. The SEC fraud enforcement civil actions against AIG resulted in the issuance of 3 injunctions from engaging in any more frauds:

Litigation Release	Finding	Injunction Against AIG
SEC 2003-18340	The SEC filed a civil accounting fraud action in federal district court in the Southern District of New York against AIG.	Cease-and-desist order directed AIG to cease and desist from further violating federal anti-fraud laws.
SEC 2004-18985	The SEC filed a civil action against AIG for violating antifraud provisions of the federal securities laws.	AIG was permanently enjoined from violating the antifraud provisions of the federal securities laws.

SEC 2006-19560	The SEC filed charges that AIG committed securities fraud.	Court order enjoining AIG from violating the antifraud provisions of federal securities laws.

C. U.S. DEPARTMENT OF JUSTICE CRIMINAL PROSECUTION OF AIG

100. On 30 November 2004 Deputy Attorney General James B. Comey, Assistant Attorney General Christopher A. Wray of the Criminal Division, and FBI Director Robert Muller (all members of the President's Corporate Fraud Task Force) announced that a criminal complaint had been filed against an AIG subsidiary, AIG-FP PAGIC Equity Holding Corp charging criminal violations of the federal securities fraud laws. DOJ and AIG entered into a deferred prosecution of the federal criminal securities fraud laws on the premise that AIG or its subsidiaries would not engage in future fraudulent behavior. AIG-FP PAGIC accepted responsibility for its unlawful conduct. AIG had issued financial products similar to CDS to manufacture assets for AIG's customers. The transactions "were designed to enable the buyer to remove troubled or other potentially volatile assets from its balance sheet."

101. AIG had developed a financial product called "Guaranteed Alternative Investment Trust Security," or GAITS, and a similar product known as C-GAITS. AIG marketed and sold to public companies C-GAITS which was designed to artificially and falsely remove losses from the customers financial statements. As with CDOs, AIG established a special-purpose entity (SPE) for a counterparty, which then would transfer troubled or other potentially volatile assets into the SPE. One AIG customer PNC used the C-GAITS product to improperly remove $762 million in loan and venture-capital assets from its balance sheet to avoid charges to its income statement related to the decline in the value of these assets.

102. AIGFP agreed to pay an $80 million penalty to the Justice Department. AIG was "permanently enjoined from violating the antifraud provisions of the federal securities laws and from aiding and abetting violations of the reporting and record-keeping provisions of the federal securities laws. AIG agreed to establish a transaction review committee to ensure AIG did not sell fraudulent financial products in the future.

D. AIG FALSELY PROMISES TO REFORM

103. As part of resolution of the December 2004 SEC and Department of Justice fraud case, AIG's promise to reform its unlawful conduct and its establishment of an AIGFP transaction review committee to ensure no further frauds proved to be a farce. The person in charge of the AIGFP transaction review committee received hundreds of millions of dollars, and his group almost a billion dollars in bonuses, while AIGFP falsely promised to pay hundreds of billions of dollars of CDS. It was through AIGFP that AIG perpetrated one of the largest financial frauds in American history.

104. AIG represented that Cassano would see to it that AIGFP was in compliance with all applicable regulatory and accounting standards and that AIG had established a company-wide transaction committee as well:

> According to AIG Chairman Maurice R. "Hank" Greenberg, AIG Financial Products Corp. has had its own Transaction Review Committee since April, which include[d] AIGFP CEO Joe Cassano. Charged with reviewing structured finance transactions to see that they comply with all applicable regulatory and accounting standards, the committee will report its deliberations to AIGFP Chairman Edward E. Matthews, Greenberg said in a statement, adding that the company has named Frank Zarb, chairman of AIG's executive committee, and John M. "Neel" Foster, a former member of the Financial Accounting Standards Board, to AIGFP's board of directors.
>
> **
>
> AIG also is forming a companywide committee to examine complex, structured-finance transactions, which is to be headed by Chief Risk Officer Bob Lewis and is to report on a regular basis to Greenberg and the AIG board's audit committee, the company said.
>
> "This committee will help assure that no product we market in any part of our organization is sold to assist a counterparty or an insured to misrepresent either its income statement or balance sheet," Greenberg said in a statement. "The enterprise risk management area, headed by Mr. Lewis, is helping to enhance the processes we have in place to ensure that we have adequate policies, procedures and controls to protect the organization."

E. SECOND CRIMINAL FRAUD PROSECUTION OF AIG

105. On 9 February 2006, the DOJ Fraud Section and AIG entered into another deferred criminal fraud prosecution agreement arising out of the continuation of AIG's financial product fraud. While AIG was entering into this 2006 deferred prosecution agreement, it was engaged in a massive securities lending and credit default swap fraud that would eventually lead to the false

claims case alleged in this operative complaint.

106. The February 2006 AIG deferred criminal prosecution agreement provided in pertinent part:

> **The Department has notified AIG that, in the Department's view, which is based upon an investigation by the Department and the United States Postal Inspection Service, AIG, acting through some of its employees, violated federal criminal law in connection with misstatements in periodic financial reports AIG filed with the United States Securities & Exchange Commission ("SEC") between 2000 and 2004, which misstatements related to transactions known as "AIG/Gen Re LPT" and "CAPCO."
>
> Facts Regarding AIG/Gen Re LPT and CAPCO
>
> The parties jointly acknowledge the following factual statements regarding AIG/Gen Re LPT and CAPCO as accurate: AIG/Gen Re LPT improperly recorded approximately $250 million in loss reserves in the fourth quarter of 2000 and reported those additional loss reserves to the public in its earnings releases and in financial reports it filed with the SEC.
>
> It improperly recorded an additional $250 million in loss reserves in the first quarter of 2001 and also reported those additional loss reserves in its earnings releases and SEC reports. Both increases in loss reserves resulted from the AIG/Gen RE LPT transactions.
>
> **
>
> AIG agrees:
>
> 1. to accept responsibility for its actions and the actions of its employees as set forth above;
>
> 2. to abide by the Consent and Undertakings of Defendant American International Group, Inc. in the SEC Action, a copy of which is attached hereto as Appendix B and incorporated herein;
>
> 3. to cooperate with the ongoing criminal investigation by the Department;
>
> 4. to timely and voluntarily make available to the Department all current employees that the Department requests to interview;
>
> 5. to provide in a timely way to the Department all documents and other materials, including documents and materials located outside the United States, that the Department requests;
>
> 6. to provide in a timely way truthful, complete and accurate information to the Department concerning any matter relating to the ongoing criminal investigation by the Department;
>
> 7. to acknowledge and agree that the Department can share any information, documents, materials and statements provided by AIG with other federal law enforcement entities and regulatory agencies;

> 8. not to make, cause others to make, or acknowledge as true any factual statement inconsistent with the factual descriptions of the AIG/Gen Re LPT and CAPCO transactions contained herein, provided, however, that nothing in this paragraph precludes AIG from taking good faith positions in litigation involving a private party; and
>
> **

F. **AIG AGAIN FALSELY PROMISES REFORM**

107. On 9 February 2006 AIG issued a public written apology for its unlawful conduct and promised to amend its ways:

> AIG regrets and apologizes for the conduct that led to the action brought by the New York Attorney General and the New York Superintendent of Insurance and today's settlement. Providing incorrect information to the investing public and to regulators was wrong and is against the values of our current leadership and employees.
>
> In response to these events, and to the guilty pleas of our own employees and others, as part of today's settlement, we have and are continuing to aggressively implement business reforms to prevent this conduct from recurring. We are committed to business practices that provide transparency and fairness in the insurance markets. As part of our commitment, among other things, we have agreed not to pay contingent commissions for excess casualty insurance and will support legislation to eliminate contingent commission payments.

108. While AIG was promising to amend its unlawful ways it was engaged in a massive fraud to artificially increase its assets by building on and refining the kinds of transactions it was prosecuted for by the Department of Justice and SEC.

G. **WHILE PROMISING REFORM, AIG DID SECURITIES LENDING FRAUD**

109. Before, during and after AIG's 30 November 2004 deferred criminal prosecution and SEC Fraud enforcement actions, AIG was fraudulently transferring $60 billion from insurance reserves into high-risk RMBS. Table 5 shows AIG increased its securities lending by $30 billion between 2003 and 2005.

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Table 5 Year	General Insurance (billions)	Life Insurance (billions)	Life Insurance and Retirement	Asset Management	Total[32] (billions)
2003	$5.225	$24.970			$30.195
2004	$4.889		$35.726	$9.357	$49.972
2005	$4.889		$42.991	$11.549	$59.471

H. WHILE PROMISING REFORM, AIG ISSUED FRAUDULENT CDS

110. While AIG was promising to reform, AIG was increasing the sale of fraudulent CDS to support CDOs. The following table shows AIG issued $38.9 billion in CDS on CDOs between 2002 through 2005, $24.7 billion of which was in 2005, the year AIG promised to stop engaging in fraud. AIG became exposed to over $20 billion in the CDS it issued on CDOs between 2002 and 2005, as illustrated on the following table:[33]

Year	Notional Value	Total Collateral Posted	Negative Mark to Market[34]
2002	$1,848,176,559	$430,603,213	$457,687,818
2003	$801,752,417	$324,755,673	$342,623,603
2004	$11,568,893,546	$5,353,373,627	$5,638,587,625
2005	$24,707,047,515	$14,618,776,388	$13,651,633,477
Total	$38,925,870,037	$20,727,508,901	$20,090,532,523

VIII.

AIG REPEATS FINANCIAL STATEMENT FRAUD

111. AIG suffered substantial losses as a result of its long standing fraudulent activity. Under Mr. Sullivan, AIG restated its financial statements in May 2005. On 1 May 2005 AIG announced that AIG's Audit Committee concluded that AIG was required to restate its previously

[32] AIG 10-Ks 2005, 2007 Summary, Ex. 141.
[33] AIG 8-KA 29 January 2010 Summary, Ex. 116 (with Excel sheet).
[34] The negative-mark-to-market is the difference beyween the notional value of the derivative transaction and its market value, AIG 29 January 2010 Exhibit 10.1, Summary, Ex. 116.

issued financial statements for 2000-2004. [35] AIG determined that the effect of the restatement would reduce shareholders' equity at 31 December 2004 by approximately $2.7 billion.[36] AIG admitted financial statement "errors" of approximately $2.0 billion. [37]

112. AIG's auditor issued an adverse opinion finding AIG had material weaknesses in its internal controls:

> AIG management has identified certain control deficiencies, including (i) the ability of certain former members of senior management to circumvent internal controls over financial reporting in certain circumstances, (ii) ineffective controls over accounting for certain structured transactions and transactions involving complex accounting standards and (iii) ineffective balance sheet reconciliation processes. These deficiencies are "material weaknesses" as defined by the Public Company Accounting Oversight Board's Auditing Standard No. 2. Consequently, management has concluded that AIG's internal control over financial reporting was ineffective as of December 31, 2004. Accordingly, PwC will issue an adverse opinion with respect to AIG's internal control over financial reporting. [38]

113. AIG represented that it had "begun to actively address the control deficiencies" and AIG was working on "remediation plans." [39] Eight months later in February 2006 AIG was again the subject of another DOJ and SEC prosecution. Again, AIG assured the market that it was reforming.

114. One year later in 2007 AIG was using methods that materially and significantly overstated the value of AIG's CDS portfolio written to protect super senior CDOs discussed below. [40] In February 2008 AIG reported an $11.1 billion write-down of its CDS portfolio.[41] In May 2008 AIG reported an additional $9.11 billion write-down of its CDS portfolio. On 15 June 2008, Robert Willumstad replaced Sullivan as AIG's CEO. [42] Three months later on 18 September 2008, Edward M. Liddy replaced Willumstad.[43] AIG announced it needed federal funds to survive in and around 15 September 2008.[44] Within a year, on 3 August 2009, Robert H.

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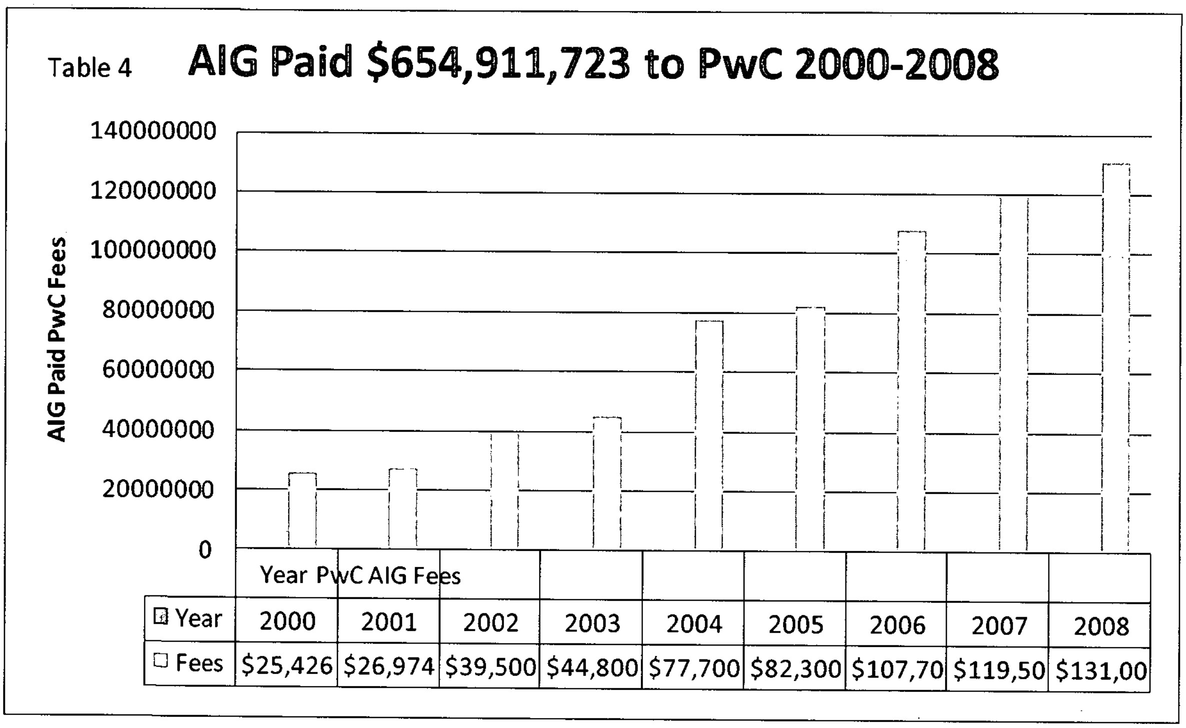
[35] AIG 8-K 2 May 2005 Summary, Ex. 145.
[36] AIG 8-K 2 May 2005 Summary, Ex. 145.
[37] AIG 8-K 2 May 2005 Summary, Ex. 145.
[38] AIG 8-K 2 May 2005 Summary, Ex. 145.
[39] AIG 8-K 2 May 2005 Summary, Ex. 145.
[40] AIG 8-K 11 February 2008 Summary, Ex 115.
[41] Summary, Ex.128 ; 16 June 2008 Reuters Factbox: AIG Chief Sullivan's rise and fall, Summary, Ex. 152.
[42] 15 June 2008 AIG news release AIG names Robert B. Willumstad CEO, Summary, Ex. 151.
[43] 18 September 2008 AIG news release AIG elects Edward M. Liddy, Summary, Ex.153.
[44] AIG 2008 AIG 10-K p. 40 Summary, Ex. 52

Benmosche replaced Liddy as AIG's CEO. [45]

115. AIG continued to use its outside auditor to conceal AIG's deteriorating financial condition. Despite all of the legal action taken against AIG by federal law enforcement in connection with AIG's fraudulent behavior, AIG continued to issue false financial statements through 2007 and 2008. In particular, AIG issued false financial statements that substantially and materially overstated AIG's CDS portfolio.

116. AIG was able to engage in this on-going pattern of unlawful conduct by capturing its outside auditor, PricewaterhouseCoopers (PwC). In fact, while AIG has been issuing false financial statements over the last decade, AIG has paid PwC in excess of $654 million, as set forth in the following table:



IX.

FED EMERGENCY LENDING AUTHORITY

117. The Fed Board under 12 USC § 343 [§13(3) Federal Reserve Act] may in unusual and exigent circumstances, with the concurrence of a minimum of 5 Fed Board members, authorize any Federal Reserve Bank "to discount" for any nonbank "notes, drafts, and bills of

[45] 3 August 2009 AIG news release AIG Board elects Benmosche Summary, Ex. 154.

exchange" when "indorsed or otherwise secured to the satisfaction of the Federal reserve bank."[46]

118. The Federal Reserve Bank making the loan is required to "obtain evidence" that the nonbank "is unable to secure adequate credit accommodations" from other banks. Such discounts are subject to such limitations, restrictions, and regulations, as the Federal Reserve Board may prescribe. Five members of the Fed Board must authorize the loan.[47]

119. 12 USC § 343 [Federal Reserve Act §13(3)] permits nonbank firms to borrow at the Fed Reserve discount window for emergency purposes but only **under the same collateral terms afforded to banks**. 12 U.S.C. § 473 *did not* give Federal Reserve Banks the power to make loans to nonbanks that the Federal Reserve Banks could not make to depository institutions.

120. In 2007 the Fed Board adopted a regulation (12 C.F.R. § 201.4) implementing the emergency lending authority of Fed banks under 12 USC § 343. Under the regulation, a Federal Bank can make loans to nonbanks only in unusual and exigent circumstances and after consultation with the Board of Governors. The Federal Reserve Bank has to conclude that credit is not available from other sources, and that **failure to obtain such credit would adversely affect the economy.**

121. If the collateral used to secure the emergency loan is not issued or guaranteed by the United States government, then the collateral must be in the form of a discount, and 5 Board of Governors members must vote to authorize the discount prior to the extension of the credit:

> **If the collateral used to secure emergency credit consists of assets other than obligations of, or fully guaranteed as to principal and interest by, the United States or an agency thereof, credit must be in the form of a discount and five or more members of the Board of Governors must affirmatively vote to authorize the discount prior to the extension of credit.** Emergency credit will be extended at a rate above the highest rate in effect for advances to depository institutions.[48]

122. The emergency loan law under which the FRBNY made loans to Maiden Lane II and Maiden Lane III (12 USC §343) provides in pertinent part that federal funds may be lent

[46] 12 U.S.C. § 343 [§13(3) Federal Reserve Act]; Todd, Walker F. *FDICIA's Emergency Liquidity Provisions* Summary Ex. 161.

[47] Todd, Walker F. *FDICIA's Emergency Liquidity Provisions,* Summary, Ex. 161.

[48] 12 C.F.R. § 201.4 Availability and terms of credit, (12 C.F.R. 201 as amended effective December 12, 2007). Authority: 12 USC §§ 248(i)-(j), 343 *et seq.*, 347a, 347b, 347c, 348 *et seq.*, 357, 374, 374a, and 461.

under emergencies to corporations by the Federal Reserve Board:

> In unusual and exigent circumstances, the Federal Reserve Board [Board of Governors of the Federal Reserve System], by the affirmative vote of not less than five members, may authorize any Federal reserve bank, during such periods as the said board may determine, at rates established in accordance with the provisions of section 14, subdivision (d) of this Act [12 USCS § 357], to discount for any individual, partnership, or corporation, notes, drafts, and bills of exchange when such notes, drafts, and bills of exchange are **indorsed or otherwise secured** to the satisfaction of the Federal reserve bank: *Provided,* That before discounting any such note, draft, or bill of exchange for an individual or a partnership or corporation the **Federal reserve bank shall obtain evidence that such individual, partnership, or corporation is unable to secure adequate credit accommodations from other banking institutions**. All such discounts for individuals, partnerships, or corporations shall be subject to such limitations, restrictions, and regulations as the Federal Reserve Board [Board of Governors of the Federal Reserve System] may prescribe.

123. Regulation A 12 Code of Federal Regulation § 201.4 (1) (d)[49] (Availability and terms of credit) provides for extensions of credit by a Federal Reserve Bank in emergencies:

> Emergency credit for others. In unusual and exigent circumstances and after consultation with the Board of Governors, a Federal Reserve Bank may extend credit to an individual, partnership, or corporation that is not a depository institution if, in the judgment of the Federal Reserve Bank, credit is not available from other sources and failure to obtain such credit would adversely affect the economy. If the collateral used to secure emergency credit consists of assets other than obligations of, or fully guaranteed as to principal and interest by, the United States or an agency thereof, credit must be in the form of a discount and five or more members of the Board of Governors must affirmatively vote to authorize the discount prior to the extension of credit. Emergency credit will be extended at a rate above the highest rate in effect for advances to depository institutions.

124. The Fed Board has adopted various collateral requirements imposed in connection with loans made under Federal Reserve Act §§ 10B and 13(3) (12 USC § 343). The Federal Reserve requires collateral to meet regulatory standards for sound asset quality to be accepted as security for loans.[50] In its "Discount Window & Payment System Risk, Acceptance Criteria for Commonly Pledged Asset Types, Acceptance Criteria Applicable to All Securities" (New York Fed Pledged Asset Acceptance Criteria), the FRBNY has specified its requirements as to the form and category of the acceptable collateral.[51]

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[49] 12 C.F.R. 201 as amended effective December 12, 2007) adopted based on the authority of 12 U.S.C. 248(i)-(j), 343 et seq., 347a, 347b, 347c, 348 et seq., 357, 374, 374a, and 461.

[50] http://www.frbdiscountwindow.org/cfaq.cfm?hdrID=21&dtlID=#a1

[51] The New York Fed Pledged Asset Acceptance Criteria includes this disclaimer: "This document is for informational purposes only, is subject to change without notice, and is not binding on the Federal Reserve System in any particular transaction." While the New York Fed reserves the right to change the Acceptance Criteria form it does not appear it did so for the Maiden Lane II and III loans. Whether it is binding on the New York Fed is a legal

X.

DEFENDANTS SUBMITTED FALSE CLAIMS FOR EMERGENCY LOANS

A. $85 BILLION SEPTEMBER 2008 FACILITY

125. AIG used false claims to obtain the proceeds of an $85 billion loan which AIG used to pay collateral calls on CDOs to Goldman Sachs, Goldman Sachs Capital Markets L.P., Goldman Sachs International, Deutsche Bank, Deutsch Bank AG, Deutsch Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (Bank of America) and Societe Generale purchased in the CDO OTCM.

126. On 16 September 2008, in reliance on AIG's misrepresentations, the Federal Reserve Bank, FRBNY, and Treasury issued an $85 billion "liquidity facility" commitment to AIG under section 13(3) of the Federal Reserve Act.

> The purpose of this liquidity facility is to assist AIG in meeting its obligations as they come due. This loan will facilitate a process under which AIG will sell certain of its businesses in an orderly manner, with the least possible disruption to the overall economy.
>
> The AIG facility has a 24-month term. Interest will accrue on the outstanding balance at a rate of three-month Libor plus 850 basis points. AIG will be permitted to draw up to $85 billion under the facility.
>
> The interests of taxpayers are protected by key terms of the loan. The loan is collateralized by all the assets of AIG, and of its primary non-regulated subsidiaries. These assets include the stock of substantially all of the regulated subsidiaries. The loan is expected to be repaid from the proceeds of the sale of the firm's assets. The U.S. government will receive a 79.9 percent equity interest in AIG and has the right to veto the payment of dividends to common and preferred shareholders.

127. AIG represented the $85 billion loan could include terms and conditions designed to protect the interests of the U.S. government and taxpayers. One such term required the loan to be secured by all of AIG's assets, including those of AIG's regulated and unregulated subsidiaries. AIG's representations were false because the assets of AIG's regulated subsidiaries were already encumbered and were not in fact eligible to be used as collateral for the $85 billion loan. The fact that the $85 billion loan was not secured by the assets of AIG's regulated subsidiaries has been admitted by AIG, as alleged below.

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issue that would have to be resolved by a Court.

128. As alleged, AIG management under the terms of the original $85 billion loan agreed to have AIG pay interest at a rate equal to 3-month LIBOR plus 850 basis points quarterly. AIG management's promise to pay interest at a rate equal to 3-month LIBOR plus 850 basis points quarterly was false because it was made without the intent to perform the promise because AIG management knew AIG did not have the funds to make such payments.

129. As alleged, the original terms of the $85 billion loan required AIG to repay the loan to the FRBNY no later than 22 September 2010. AIG management made the promise to pay the $85 billion loan to the FRBNY by September 2008 without the intent to perform the promise because AIG management knew AIG did not have the income to repay the loan.

130. AIG management made several misstatements of fact leading up to the announcement that the Fed Board had authorized the FRBNY to make the $85 billion loan as illustrated in the following:

Year Month	**Day**	**Event/Action**
2007		
Dec	5	AIG hosts an investor presentation where it falsely states its belief that the possibility that AIGFP's super senior credit default swaps would sustain a loss was "close to zero." The presentation was widely criticized and cited in shareholder litigation.
2008		
Feb	11	AIG reports material weakness in internal controls relating to valuation, but does not disclose it dire financial condition due to its long-standing fraudulent course of business.
	28	AIG reports net loss for fourth quarter 2007 of $5.29 billion, which includes a charge of $11.2 billion pretax for net unrealized market value loss related to the AIGFP super senior CDS. The company falsely repeats its expectation that these unrealized losses will reverse over the remaining life of the super senior CDSs. AIG again fails to disclose its dire financial condition.
May	8	AIG falsely reports a net loss for the first quarter of 2008 of $7.81 billion, when its losses were substantially and materially greater
	12	Major rating agencies relying on AIG's representations take modest actions regarding the credit ratings of AIG (S&P AA-; Moody's Aa2; Fitch AA-)

	16-22	AIG raises over $20 billion through the sale of common stock, equity-linked and subordinated securities without disclose its dire financial condition
	23	Major rating agencies take further actions (S&P AA-; Moody's Aa3; Fitch AA-) again relying on AIG's under reporting of losses
June	15	Robert B. Willumstad succeeds Martin J. Sullivan as CEO
August	6	AIG reports a net loss for the second quarter of 2008 of $5.36 billion, again substantially and materially underreporting its losses
	18	AIG completes an offering of $3.35 billion of debt securities without disclosing its dire financial condition to investors
Sept.	1	CEO Willumstad informs Timothy Geithner of a coming liquidity crunch, without disclosing AIG's fraudulent behavior
	12-15	Attempts to secure private financing for AIG proved unsuccessful
	15	Major rating agencies downgrade AIG (S&P A-; Moody's A2; Fitch A)
	16	The FRBNY agrees to provide AIG with an $85 billion secured revolving credit facility and will take a 79.9% ownership interest in AIG based on AIG's false statements that AIG faces a liquidity crisis and based on AIG's false promises.
	22	AIG executes a credit agreement with the Federal Reserve Bank of New York

131. AIG and the FRBNY entered into a written loan agreement providing FRBNY to lend AIG $85 billion, which loan was made in reliance by the FRNBY and the Fed Board and the U.S. Treasury on the misrepresentations and omissions of material facts by AIG management:

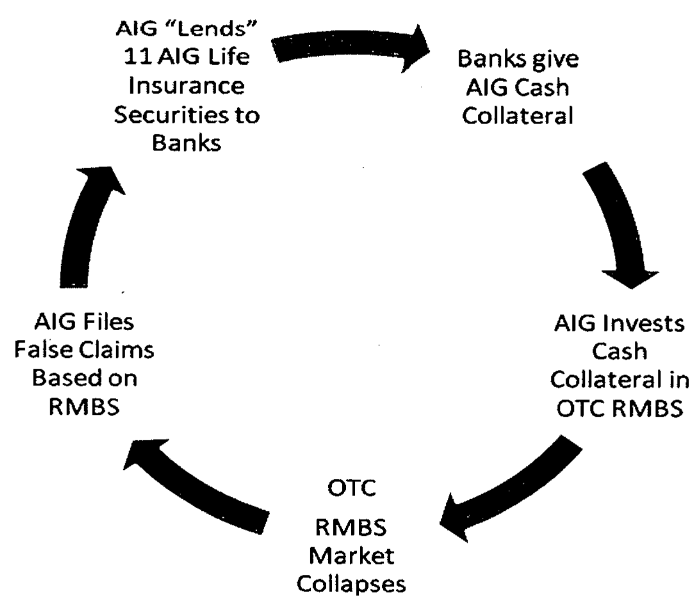
> On September 22, 2008, AIG entered into the Fed Credit Agreement in the form of a two-year secured loan and a Guarantee and Pledge Agreement (the Pledge Agreement) with the NY Fed. See Note 13 to the Consolidated Financial Statements for more information regarding the terms of and borrowings under the Fed Credit Agreement and subsequent amendments thereto.

132. Under the loan agreement for the $85 billion loan, advances were to be made in an integrals of $10,000,000 and not less than $50,000,000 multiples. AIG was required to give telephonic notice to FRBNY not later than 3:00 p.m., New York City time:

> Section 2.02. *Loans.* (a) The Loans constituting any Borrowing shall be in an aggregate principal amount that is an integral multiple of $10,000,000 and not less than $50,000,000. ***
>
> Section 2.03. *Borrowing Procedure.* Subject to Section 4.03, the Borrower shall request each Borrowing by giving telephonic notice to the Lender not later than 3:00 p.m., New York City time, the Required Number of Days prior to such proposed Borrowing; *provided* that the Borrower agrees to use good-faith efforts

to provide the Lender earlier notice of such Borrowings when practicable; *provided further* that in the case of a serious and unanticipated liquidity need, the Borrower may request up to $3,000,000,000 by giving telephonic notice to the Lender not later than 9:00 a.m., New York City time, on the date of such proposed Borrowing. **

133. When the RMBS OTCM collapsed AIG, Deutsche Bank, Deutsch Bank AG, Deutsch Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (Bank of America) and Societe Generale conspired to and caused to be filed false claims with the FRBNY and Maiden Lane II in order to recover losses AIG incurred in connection with its OTC RMBS as illustrated in the following chart:

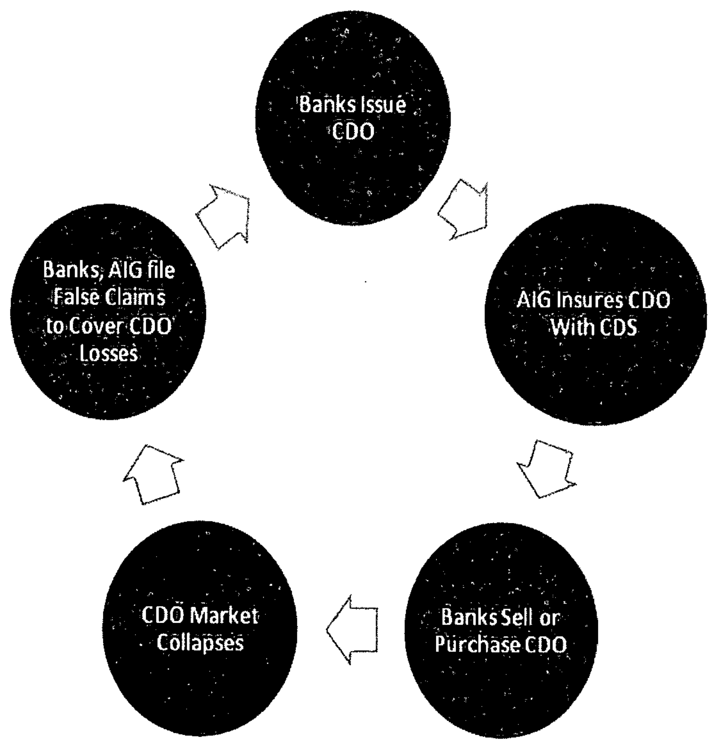


134. Instead of selling the AIG RMBS and recognizing the loss, AIG transferred the RMBS losses in the form of false claims to the New York Fed in the Maiden Lane II transaction, and Fed funds were transferred:

AIG False Claims 12 USC § 343 ML II Loan	**(billions)**
Deutsche Bank	$6.4
Goldman Sachs	$4.6
Bank of America	$4.5
Merrill Lynch	$1.9
Societe Generale	$0.9
AIG International	$0.6

B. MAIDEN LANE LOANS

135. When the CDO OTCM collapsed, defendants Goldman Sachs, Goldman Sachs Capital Markets LP, Deutche Bank AG, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands, Merrill Lynch (BOA) and Societe Generale conspired to and caused to be filed false claims with the FRBNY and Maiden Lane III in order to recover losses AIG incurred in connection with its OTC RMBS as illustrated in the following chart:



136. In September 2008 AIG represented it was experiencing a liquidity crisis. AIG made false representations to FRBNY and Fed Board in order to secure an $85 billion emergency loan as alleged in this operative complaint.

137. In connection with their false claims defendants Societe Generale, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Goldman Sachs Capital Markets L.P., Goldman Sachs International, and Merrill Lynch (BofA) received from the FRNBY through AIGFP a total of $34 billion as illustrated in the following table:

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Company	Collateral Postings Under AIGFP CDS	ML III Payments	Total
Societe Generale	$4100	$6,900	$11,000
Goldman Sachs	$2,500	$5,600	$8,100
Merrill Lynch (BofA)	$1,800 ($200)	$3,100 ($500)	$5,600
Deutsche Bank	$2,600	$2,800	$5,400
AIGFP		$2,500	$2500
Total	$11,200	$23,400	$34,600

138. AIG omitted to disclose that its financial condition was impaired due to the fact that it had engaged in a pattern of fraudulent conduct resulting in 3 Securities & Exchange Commission fraud judgments, 2 criminal fraud prosecutions against AIG and fraud in the CDO OTCM in which AIG issued fraudulent CDS. AIG was operating its primary businesses, its insurance subsidiaries, by support and reinsurance agreements and based on revenues generated by the sale of fraudulent financial products.

139. AIG made false promises when it issued CDS in amounts that AIG clearly could not pay. AIG used reckless underwriting standards for issuing its CDS and reported income derived from its CDS operations in amounts that substantially and materially exceeded the revenues AIG received and stood to receive.

140. AIG operated its securities lending and investment business fraudulently. AIG diverted securities belonging to 11 of its life insurance company subsidiaries and invested the proceeds of loans secured by the life insurance securities in speculative RMBS without proper disclosure to the AIG policy holders or to insurance department regulators. AIG also inflated the financial performance of the RMBS on its financial statements and failed to disclose losses as they were incurred. AIG suffered real and substantial losses and its problems were not limited to liquidity issues. AIG did not have sufficient assets to remain a going concern. AIG did not hold assets for which there was a temporary market failure that disrupted liquid cash flow. Instead, AIG was suffering real and substantial losses due to several years of its fraudulent conduct.

141. AIG failed to disclose these dire facts to the FRBNY and Fed Board. Instead, AIG falsely described its financial difficulties to the FRBNY and Fed Board as a "liquidity" concerns:

> From mid-July and throughout August 2008, AIG's then Chief Executive Officer, Robert Willumstad, was engaged in a strategic review of AIG's businesses.
>
> During this time period, AIG was engaged in a review of measures to address the **liquidity concerns** in AIG's securities lending portfolio and to address the ongoing collateral calls with respect to the AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) super senior multi-sector credit default swap portfolio, which at July 31, 2008 totaled $16.1 billion.

142. AIG also failed to disclose to the FRBNY and Fed Board that the CDOs AIG insured with CDS were issued in amounts materially and substantially in excess of their value. Instead, AIG attempted to paint the fraudulent CDO values as a "decline in value" that were putting stress on AIG's liquidity:

> In addition, from July 1, 2008 to August 31, 2008, **the continuing decline in value of the super senior collateralized debt obligation** (CDO) securities protected by AIGFP's super senior credit default swap portfolio, together with ratings downgrades of such CDO securities, resulted in AIGFP posting additional collateral in an aggregate net amount of $5.9 billion.
>
> By the beginning of September 2008, these collateral postings and securities lending requirements were placing increasing stress on AIG parent's liquidity.
>
> In early September 2008, AIG met with the representatives of the principal rating agencies to discuss Mr. Willumstad's strategic review as well as the liquidity issues arising from AIG's securities lending program and AIGFP's super senior multi-sector CDO credit default swap portfolio.

143. AIG continued to represent to the FRBNY and Fed Board that AIG's financial collapse was caused by downgrades in its credit ratings. To the contrary, the downgrades were a recognition that AIG's financial condition had deteriorated due to a long pattern of unlawful and fraudulent business practices AIG had engaged in:

> On Friday, September 12, 2008, Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P), placed AIG on CreditWatch with negative implications and noted that upon completion of its review, the agency could affirm AIG parent's current rating of AA- or lower the rating by one to three notches.
>
> AIG understood that both S&P and Moody's Investors Service (Moody's) would re-evaluate AIG's ratings early in the week of September 15, 2008.

144. AIG was forced to admit that its subsidiaries were unable to replace their credit lines. AIG claimed it advanced loans to these subsidiaries, but in fact AIG diverted funds from its

insurance operations to provide the financing:

> Also on Friday, September 12, 2008, AIG's subsidiaries, International Lease Finance Corporation (ILFC) and American General Finance, Inc. (AGF), were unable to replace all of their maturing commercial paper with new issuances of commercial paper. As a result, AIG advanced loans to these subsidiaries to meet their commercial paper obligations.

145. AIG attempted to blame its financial collapse on the negative credit rating action taken by Standards and Poors, when in fact it was AIG's fraudulent course of business that caused AIG's financial demise:

> As a result of S&P's action, AIG accelerated the process of attempting to raise additional capital and over the weekend of September 13 and 14, 2008, discussed potential capital injections and other liquidity measures with private equity firms, sovereign wealth funds and other potential investors.

146. AIG admitted that it kept the FRBNY and U.S. Treasury Department informed of its adverse financial condition. AIG in fact *misinformed* the FRBNY and Treasury of the causes of AIG's precarious financial condition. AIG also attempted to blame its financial problems on the decline of its stock value. However, the decline of AIG's stock value continued over an extensive period of time, as illustrated by the Chart below:

> AIG kept the United States Department of the Treasury and the NY Fed informed of these efforts. AIG also engaged Blackstone Advisory Services LP to assist in developing alternatives, including a potential additional capital raise. Despite offering a number of different structures through this process, AIG did not receive a proposal it could act upon in a timely fashion. AIG's difficulty in this regard resulted in part from the dramatic decline in its common stock price from $22.76 on September 8, 2008 to $12.14 on September 12, 2008. This decrease in stock price made it unlikely that AIG would be able to raise the large amounts of capital that would be necessary if AIG's long-term debt ratings were downgraded.

147. AIG stock value declined over a 4-year period, with the greatest decline taking place over the period of 2007 to 2008:

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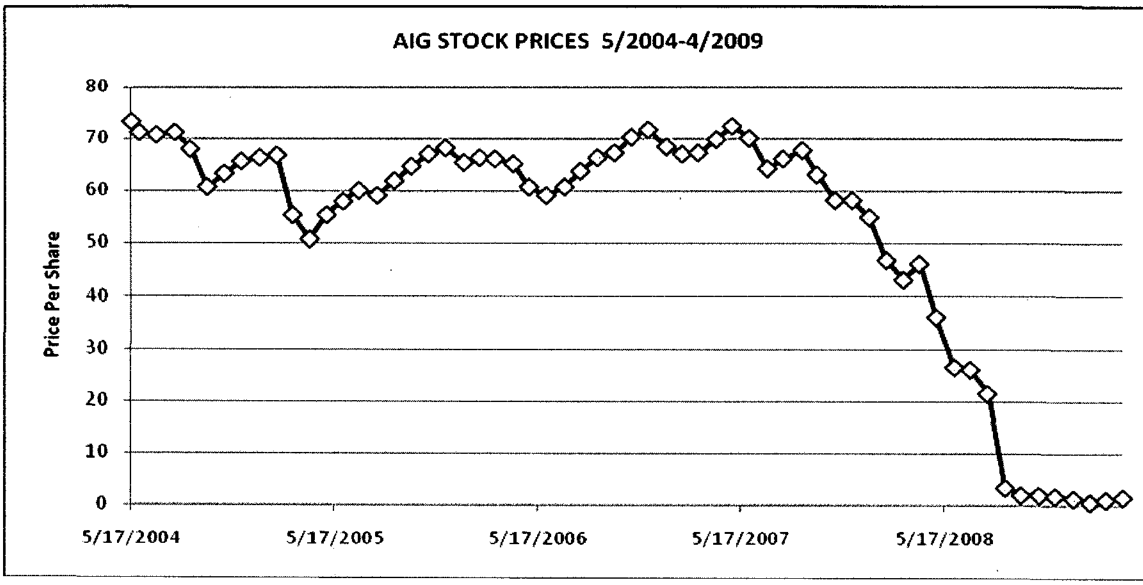

148. AIG also falsely represented that downgrades in AIG's credit ratings caused AIG to fund approximately $32 billion of collateral demands. In fact, AIG could have defended against the collateral calls arising out of the CDS it issued based on defenses. Once the FRBNY and U.S. Treasury agreed to advance $85 billion to AIG, AIG elected not to use those defenses:

> In the late afternoon of September 15, 2008, S&P downgraded AIG's long-term debt rating by three notches, Moody's downgraded AIG's long-term debt rating by two notches and Fitch Ratings (Fitch) downgraded AIG's long-term debt rating by two notches. As a consequence of the rating actions, AIGFP estimated that it would need in excess of $20 billion in order to fund additional collateral demands and transaction termination payments in a short period of time. Subsequently, in a period of approximately 15 days following the rating actions, AIGFP was required to fund approximately $32 billion, reflecting not only the effect of the rating actions but also changes in market values and other factors.

149. In fact AIG would have been able to assert defenses based on breaches of warranties in the CDS by AIG's counterparties who issued their CDOs without regard to requisite underwriting standards. In fact, the November 2007 internal AIGFP memorandum described above documented the fact that the parties were not pushing to enforce the collateral call provisions of the CDS. The enforcement of the CDS came after the counterparties learned of the scheme to pass the cash collateral obligation on the FRBNY by way of false claims.

150. AIG made it appear that it reached a point of financial collapse due to the loss of its stock value and credit rating downgrades, when in fact its financial demise was the result of AIG's long-standing fraudulent conduct:

> By Tuesday morning, September 16, 2008, it had become apparent that Goldman, Sachs & Co. and J.P. Morgan were unable to syndicate a lending facility. Moreover, the downgrades, combined with a steep drop in AIG's common stock price to $4.76 on September 15, 2008, had resulted in counterparties withholding payments from AIG and refusing to transact with AIG even on a secured short-term basis. As a result, AIG was unable to borrow in the short-term lending markets. To provide liquidity, on Tuesday, September 16, 2008 both ILFC and AGF drew down on their existing revolving credit facilities, resulting in borrowings of approximately $6.5 billion and $4.6 billion, respectively.

151. AIG had engaged in a practice of diverting funds from its regulated insurance subsidiaries to pay for the costs of AIG's speculative investments. When the insurance regulators finally ordered AIG to stop diverting funds from AIG's subsidiaries, AIG management attempted to characterize this as an order to stop borrowing money from the AIG subsidiaries:

> Also, on September 16, 2008, AIG was notified by its insurance regulators that it would no longer be permitted to borrow funds from its insurance company subsidiaries under a revolving credit facility that AIG maintained with certain of its insurance subsidiaries acting as lenders. Subsequently, the insurance regulators required AIG to repay any outstanding loans under that facility and to terminate it. The intercompany facility was terminated effective September 22, 2008.

152. AIG described the timing of the FRBNY- and Treasury-approved loans as having been made "By early Tuesday on September 16, 2008:"

> By early Tuesday afternoon on September 16, 2008, it was clear that AIG had no viable private sector solution to its liquidity issues. At this point, AIG received the terms of a secured lending agreement that the NY Fed was prepared to provide. AIG estimated that it had an immediate need for cash in excess of its available liquid resources.
>
> That night, AIG's Board of Directors approved borrowing from the NY Fed based on a term sheet that set forth the terms of the secured credit agreement and related equity participation.

153. On 8 October 2008 the Fed Board announced it had authorized the FRBNY to borrow securities from AIG's insurance subsidiaries under section 13(3) of the Federal Reserve Act. Under this program, the FRBNY borrowed up to $37.8 billion in investment-grade, fixed-income securities from AIG in return for cash collateral. These securities were previously lent by AIG's insurance company subsidiaries to third parties, which AIG admitted:

> Over the next six days, AIG elected Edward M. Liddy Director, Chairman and CEO, replacing Robert Willumstad in those positions, and negotiated a definitive credit agreement with the NY Fed and borrowed, on a secured basis, approximately $37 billion from the NY Fed before formally entering into the Credit Agreement, dated as of September 22, 2008 (as amended, the Fed Credit

Agreement) between AIG and the NY Fed, which established the credit facility (Fed Facility).

154. Proceeds from the $85 billion loan to AIG, according to then-AIG CEO Edward M. Liddy, went to AIGFP for securities lending and financial products, which are alleged to have been at the heart of fraudulent conduct identified in this operative complaint:

Edward M. Liddy

That money went exactly where we thought it would go. It went primarily to securities lending and AIG financial products area. That's probably in round numbers $53 billion or $54 billion.

155. AIG used advances from the $85 billion September facility to pay cash collateral calls and as follows:

$35.3 billion to cover loans to AIGFP for collateral postings, GIA,[52] and other maturities; $13.3 billion in capital contributions for insurance subsidiaries;

$3.1 billion to repay securities lending obligations;

$2.7 billion for AIG funding commercial paper maturities;

$1.5 billion for intercompany loan repayment;

$1.0 billion each in contributions for AIG Consumer Finance Group's (AIGCFG) subsidiaries and debt repayments; and

$2.7 billion in additional borrowing. Including paid-in-kind interest and fees on the amount borrowed, AIG's total balance outstanding on the facility was $62.96 billion at the end of September 2008. [53]

156. A substantial and material part of the advances from the September facility was used by AIG to cover losses it incurred as a result of its unlawful and fraudulent practices.

157. The following table illustrates AIG's use of $77 billion in advances under the $85 billion facility as of November 2008, a substantial and material :

///

[52] GIA means Guarantee Investment Agreements that AIG had secured.

[53] AIG Form 10–Q for Third Quarter 2008, supra note 23, at 43; Board of Governors of the Federal Reserve System, Data Download Program (online at www.federalreserve.gov/datadownload/) (hereinafter ''Federal Reserve Data Download Program'') (accessed 28 May 2010).

Use of Proceeds from Facility Advances (in $ millions)	9/08	11/08
Loans to AIGFP for collateral postings, GIA and other maturities	$ 35,340	$ 43,100
Capital contributions to insurance companies(a)	13,341	13,687
Repayment of obligations to securities lending program	3,160	3,160
AIG Funding commercial paper maturities	2,717	3,714
Repayment of intercompany loans	1,528	1,528
Contributions to AIGCFG subsidiaries	1,094	1,591
Debt repayments	1,038	1,578
Other borrowings(a)	2,782	8,642
Total Advances	61,000	77,000

158. Advances from the September $85 billion Facility were used to pay cash collateral calls to AIG counterparties to whom AIG had fraudulently sold credit protection in the form of CDS on CDOs fraudulently issued by counterparties, including but not limited to defendants Merrill Lynch International and its successor Bank of America (collectively Merrill Lynch), Deutsche Bank AG, Deutsche Bank AG London, Deutsche Bank AG, Cayman Islands Branch (collectively Deutsche Bank), Goldman Sachs Group Inc., Goldman Sachs Capital Markets, L.P. and Goldman Sachs International (Goldman Sachs), and Societe Generale.

C. COUNTERPARTIES DEMANDING PAR

159. In connection with false claims made forming the basis of this operative complaint, AIG and its CDS counterparties overstated AIG's exposure[54] arising out of the CDSs AIG wrote for multi-sector CDO. Collateral was required to be posted by AIG under the Master Agreement and accounting standards when certain threshold events occurred, such as a decline in the value of the CDO or a decline in AIG's credit rating.

/ / /

[54] The definition of "Exposure" under a standard CSA is the amount that would be payable to one party by the other party upon a hypothetical termination of that transaction. The Exposure amount is measured by subtracting the market value of the CDO from the notional value or par value (original) value of the CDO protected by the CDS AIG wrote. The aggregate Exposure less the value of collateral posted by AIG resulted in a net exposure amount (Delivery Amount).

160. Proceeds of the $85 billion loan were used to pay collateral calls made by the counterparties for whom AIG wrote credit protection for CDOs. Before the Fed Board authorized the $85 billion loan, AIG differed significantly with its counterparties' estimates of AIG's Exposure and with its counterparties' demands for collateral on the CDSs.

161. However, as of 30 September 2008, after the Fed Board authorized the $85 billion loan, AIG and the counterparties protected by AIG's CDS on CDOs fraudulently agreed that collateral calls were due from AIG to its counterparties in the amount of $33.046 billion. The defendant counterparties named in this operative complaint and AIG fraudulently agreed the following collateral amounts were due from AIG to the defendant counterparties:

Counterparty	AIG Agreed to Collateral Amount (Millions)
Goldman Sachs International	$9,214
Goldman Sachs Capital Markets	$83
Societe Generale	$8,377
Deutsche Bank	$2,784
Merrill Lynch International (BOA)	$3,528 ($267.4)
Total	$24.189

162. Advances from the $85 billion proved insufficient to cover all of the losses AIG incurred as a direct and proximate result of its ongoing fraudulent and unlawful activities.

163. Further, defendants Goldman Sachs Capital Markets L.P., Goldman Sachs International, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA), Societe Generale and others conspired to demand higher values for their CDOs once they learned AIG was being funded with the $85 billion September 2008 Facility. These defendants based their demands for collateral payment from AIG not on the market value of the CDOs they held, but on the falsely asserted right they had to collect the full original notional value of the CDOs based on the CDS.

164. As alleged, over $32 billion of advances from the September $85 billion facility were used to pay collateral calls to AIG's CDS counterparties holding CDOs or CDS referenced to CDOs. These collateral call payments should have been sufficient to satisfy AIG-issued CDS. In fact, at the 10 October 2008 AIG Steering Committee meeting at the FRBNY, FRBNY Market

Risk Vice President Clinton D. Lively and FRBNY Market Risk Vice President Jonathan I. Polk asked why the CDS could not be "torn up" and settled with the collateral already paid.

165. Most of the counterparties represented to the FRBNY that they had the combination of CDS and asset-backed securities CDO market at par because they believed that AIG would make good on its protection, especially given the considerable government support.

166. As a result of the demands of defendants Goldman Sachs Capital Markets LP, Goldman Sachs International, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands, Merrill Lynch (BofA), Societe Generale and other AIG CDS counterparty demands for full payment of their fraudulently issued CDS and CDOs, the FRNBY, Fed Board, and Treasury extended additional loans to AIG.

D. 6 NOVEMBER 2008 MEMORANDUM

167. At 6:00 a.m. EST on 10 November 2008, the Fed Board and Treasury announced they were making two additional loans to AIG to alleviate AIG's capital and liquidity problems.

> **Additional Lending Facilities**
>
> The Federal Reserve Board has authorized the New York Fed to establish two new lending facilities relating to AIG under section 13(3) of the Federal Reserve Act. These facilities are designed to alleviate capital and liquidity pressures on AIG associated with two distinct portfolios of mortgage-related securities.

168. The first loan was to purchase up to $22.5 billion of RMBS AIG held in connection with its securities lending and investment program:

> *Residential Mortgage-Backed Securities Facilities*
>
> In one new facility, the New York Fed will lend up to $22.5 billion to a newly formed limited liability company (LLC) [ML II] to fund the LLC's purchase of residential mortgage-backed securities from AIG's U.S. securities lending collateral portfolio. AIG will make a $1 billion subordinated loan to the LLC and bear the risk for the first $1 billion of any losses on the portfolio. The loans will be secured by all of the assets of the LLC and will be repaid from the cash flows produced by these assets as well as proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.
>
> Proceeds from this facility, together with other AIG internal resources, will be used to return all cash collateral posted for securities loans outstanding under AIG's U.S. securities lending program. As a result, the $37.8 billion securities lending facility established by the New York Fed on October 8, 2008, will be repaid and terminated.

169. The second loan was to purchase up to $30 billion of CDOs held by defendants Goldman Sachs Capital Markets L.P., Goldman Sachs International, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands Branch, Merrill Lynch (BofA), Societe Generale and other AIG CDS counterparties:

> *Collateralized Debt Obligations Facility*
>
> In the second new facility, the New York Fed will lend up to $30 billion to a newly formed LLC [ML III] to fund the LLC's purchase of multi-sector collateralized debt obligations (CDOs) on which AIG Financial Products has written credit default swap (CDS) contracts. AIG will make a $5 billion subordinated loan to the LLC and bear the risk for the first $5 billion of any losses on the portfolio. In connection with the purchase of the CDOs, the CDS counterparties will concurrently unwind the related CDS transactions. The loans will be secured by all of the LLC's assets and will be repaid from cash flows produced by these assets as well as the proceeds from any sales of these assets. The New York Fed and AIG will share any residual cash flows after the loans are repaid.

170. The funds for AIG's $1 billion capital contribution to ML II and AIG's $5 billion capital contribution to ML III were made only after AIG began drawing down on its $85 billion loan from the FRBNY. The FRBNY also provided $2.5 billion to AIG in connection with AIG's alleged over-collateralization of the CDS written for its multi-sector CDO counterparties.

171. A material and substantial factor that caused the Fed Board to authorize FRBNY to make the ML II and ML III loans was the reliance on what was material false information from AIG. The false information provided by AIG was contained in a 6 November 2008 memorandum from the Fed staff (6 November 2008 Memo). [55] AIG's false information contained in the Fed Board ML Loan Memo included AIG's SEC filings, public news releases, public statements, and direct communications with the FRBNY, Fed Board, and Treasury staff.

172. The 6 November 2008 Memo proposed that the Fed Board authorize the FRBNY to:

> Extend up to $22.5 billion in secured non-recourse credit under section 13(3) to a new limited liability company ("Maiden Lane II") for the purpose of partially funding the acquisition by Maiden Lane II from AIG of approximately $23.5 billion (market value) in residential mortgage-backed securities ("RMBS")

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[55] Staff included the following Federal Reserve Bank employees Messrs. Alvarez, Ashton and Fallon and Ms. Allison (Legal Division); Messrs. Madigan and Clouse (Monetary Affairs); Ms. Bailey and Mr. Greenlee (Division of Banking Supervision and Regulation) and Mr. Gibson (Division of Research and Statistics)

purchased by AIG with the cash collateral received through the securities lending operations of AIG's regulated insurance subsidiaries.

173. The 6 November 2008 Memo proposed that the Fed Board authorize the FRBNY to:

> Extend up to $30 billion in secured, non-recourse credit under section 13(3) to a separate, newly formed limited liability company ("Maiden Lane III") for the purpose of partially funding the acquisition by Maiden Lane III from the current counterparties of AIG's Financial Products business unit ("AIGFP") of up to $35 billion (market value) in multi-sector collateralized debt obligations ("CDOs") currently protected by credit default swaps (CDS") written by AIGFP.

174. The Fed staff, in reliance on AIG's misrepresentations, wrote in the 6 November 2008 Memo that the new loans would "remove from AIG's balance sheet certain assets and exposures that have caused substantial liquidity drains on the company and generated significant losses that have eroded AIG's capital base." Again, this statement was false because AIG was not experiencing liquidity problems, but rather, AIG, the co-defendants and other players in the unregulated CDO OTCM had used pervasive fraudulent practices to falsely inflate the AIG-insured CDOs. AIG's financial statements were impaired by its long-time fraudulent conduct.

175. "Liquidity" refers to the ability of an asset to be converted into cash quickly and without any price discount. The assets on AIG's books consisting of RMBS acquired through its Securities Lending Program were fairly defined as liquidity risk. The problem AIG faced was that the RMBS could not be sold at the price AIG paid because the RMBS had been issued at prices that materially and substantially exceeded their values.

176. Further, AIG's exposure on its CDS derived from AIG's failure to reserve sufficient funds to cover its CDS exposure -- not as a result of any liquidity issues. AIG knew the CDOs referenced by AIG-issued CDS held by defendants Goldman Sachs Capital Markets L.P., Goldman Sachs International, Deutsche Bank AG London Branch, Deutsche Bank AG Cayman Islands, Merrill Lynch (BOA), Societe Generale and other players in the CDO OTCM had been issued at fraudulently inflated values based upon risky and dishonest underwriting standards. AIG knew the referenced CDO values were inflated when issued, and that it was fraudulent to characterize the recognition of depressed values as a "liquidity problem" as that term is used in

financial analysis.

177. AIG knew that the false assets that were to be purchased through the ML vehicles by the FRBNY would be consolidated on the FRNBY balance sheet and would be subject to certain mark-to-market volatility.

178. The ML II and ML III transactions were proposed to be structured in the 6 November 2008 Memo so that "AIG would retain a first loss position in both Maiden Lane II and Maiden Lane III. " AIG knew these facts were false because the funds used to pay for AIG's equity contributions to ML II and ML III came from FRBNY or Treasury funds and not from AIG, which was insolvent by the time of the 6 November 2008 Memo.

179. AIG provided false information to the Fed Board and on which the Fed Board relied and adopted in its 6 November 2008 Memo, suggesting that "AIG's regulated insurance subsidiaries conduct a securities lending program under which the subsidiaries lend out investment grade securities in exchange for cash collateral." This was a false statement. AIG was run as an internal hedge fund and the Securities Lending Program was imposed on the life insurance companies. The program was run by AIG management -- not the management of the AIG life insurance companies forced to participate in the program.

180. AIG provided false information to the Fed Board and on which the Fed Board relied and adopted in its 6 November 2008 Memo, representing that "AIG used the cash collateral obtained through these securities lending transactions to purchase approximately $48.9 billion par value ($31.2 market value) of RMBS and commercial mortgage-backed securities ("CMBS")." This was false because AIG had used as much as $75 billion from its affiliated companies to purchase RMBS and CMBS.

181. AIG provided false information to the Fed Board and on which the Fed Board relied and adopted in its 6 November 2008 Memo, that AIG "has experienced significant liquidity pressures as its securities lending counterparties have pulled away from the company." This statement was false because it failed to disclose that AIG did not use safe and sound investment and underwriting procedures in connection with its purchase of RMBS and CMBS, and that it was for that reason AIG suffered related losses. AIG violated the principle of diversification and

as a result, suffered significant losses.

182. AIG provided false information to the Fed Board and on which the Fed Board relied and adopted in its 6 November 2008 Memo, representing that:

> AIG, however, remains exposed to further declines in the value of the securities in the reinvestment portfolio, particularly the RMBS securities (approximately $39.6 billion par value) that primarily compose this portfolio. This exposure puts ongoing stress on the liquidity and capital of AIG and weakens the company.

183. The foregoing statement, based on information provided by AIG, was false because it omitted to state that a substantial and proximate cause of AIG's ongoing stress on liquidity and capital of AIG was caused by AIG's on-going fraudulent conduct and the fraudulently inflated prices of the RMBS AIG purchased.

184. The 6 November 2008 Memo notes that the Fed Board and FRBNY on 6 October 2008 authorized the creation of the $37.8 billion Securities Borrowing Facility for AIG to address the immediate liquidity needs caused by the ongoing withdrawal of AIG's securities lending counterparties. The 6 November 2008 Memo, based on false information provided by AIG management, represented that "AIG already has experienced approximately $16.1 billion in mark-to-market losses on these RMBS (as of September 30, 2008) and the market for these securities is illiquid." This statement was misleading and therefore false because $16.1 billion in losses was caused by AIG having purchased the RMBS at fraudulently inflated values. The statement was misleading and therefore false because the RMBS market was illiquid, having by then collapsed, due to the pervasive fraudulent practices engaged in by those who had operated the RMBS market, including AIG.

185. The 6 November 2008 Memo "proposed that AIG sell all of the RMBS in the reinvestment portfolio to a new limited liability company, Maiden Lane II, that would be established solely for the purpose of holding these assets."

186. The Fed Board was further misinformed by false information provided by AIG and relied upon and incorporated in the Memo that the intrinsic value of the RMBS estimated by an outside advisor to the FRBNY was sufficient to repay the ML II loan to the FRBNY over time. This was false because the RMBS did not have the claimed intrinsic value attributed to it by AIG

as portrayed in the 6 November 2008 Memo.

187. Under the proposal, AIG would provide $1 billion in equity to Maiden Lane II in the form of a subordinated loan, and FRBNY would extend up to $22.5 billion in senior credit on a non-recourse basis to the limited liability company under section 13(3). This was a false statement because the $1 billion was to come from the funds provided by FRBNY in making the $85 billion loan.

188. The 6 November 2008 Memo represented that "The market value of the RMBS was $23.5 billion as of September 30, 2008, based on AIG's marks." This was false and misleading because there was no viable market for RMBS held by AIG as of 30 September 2008. AIG's remarks were false and remitted to induce the Fed to rely on them so as to obtain use of the Fed's funds.

189. The 6 November 2008 Memo contains additional misrepresentation based on information provided by AIG management. The Memo notes that: "One of the greatest strains on AIG arises from the derivative exposure of AIGFP and, in particular, the exposures arising from approximately 140 CDS contracts written by AIGFP on mortgage-related multi-sector CDOs with about 20 financial institution counterparties. Under the CDS, AIG has provided counterparties with credit protection on specific CDOs (the "reference securities"). In particular, AIG has agreed to purchase the reference security at par in the event of a credit event (e.g., a downgrade or default) during the term of the CDS. In return, AIG receives an upfront or periodic fee from the counterparty.

190. 6 November 2008 Memo explained that "The total notional amount of the multi-sector CDOs on which AIGFP had written credit protection is approximately $65 billion." The Memo goes on to state that:

> As the mark-to-market value of the CDOs has declined, AIG has been required to post collateral with the counterparties to secure its payment in the event of a credit event and has fair value losses on the CDS derivatives based on such assets. As of October 24, AIG has posted approximately $30.3 billion in collateral with its multi-sector CDO counterparties. Further, declines in the market value of the reference COD's would require AIG to provide additional collateral to the counterparties, creating a significant potential liquidity drain on the company and additional fair value losses for the company.

191. The foregoing statement, based on misrepresentations made by AIG, was false because it failed to disclose that AIG had valid defenses to the CDS collateral posting requirements in light of the representations made in the CDS form agreement that all laws had been complied with by the insured party (when, in fact, prices at which the CDOs were sold were the direct and proximate result of fraud). A substantial and material number of AIG's CDS were unenforceable as to any CDO issued in violation of underwriting standards or containing mortgages originated in violation of underwriting standards. Such CDOs would fall outside the warranties that the underlying transaction are not in violation of law.

192. AIG also concealed from the Fed Board that AIG had dropped the opposition to full payment of collateral demanded by the CDS counterparties only *after* the FRBNY provided AIG with the $85 billion loan.

193. The Memo documented the reliance of the FRBNY and Fed Board on AIG's representation that another credit facility was needed "to substantially reduce AIG's exposure to the multi-sector CDOs, which has been the single greatest source of losses at AIGFP." This was false because another credit line was necessary only because AIG, the co-defendants, and other CDO OTCM players schemed to enforce the AIG CDS insurance at par value with the intent of defrauding the FRBNY and Treasury, and despite valid defenses to par value enforcement of the CDS.

194. The 6 November 20008 Memo explained how the additional federal government funding would be directed at the CDS counterparties and their "tear up" of the CDS contract with AIGFP:

> In order to implement this facility, AIG's multi-sector counterparties must first agree to "tear up" their CDS contract with AIGFP. In return for doing so, AIG would agree to purchase from the counterparty the CDO reference asset underlying the CDS at par, less a concession amount to be negotiated with the counterparty. The CDOs acquired by AIGFP would then be sold to Maiden Lane III, a separate limited liability company established for the sole purpose of holding these CDOs.

195. The 6 November 20008 Memo documented the funding AIG, the co-defendants and other AIG CDS counterparties would receive for the "tear up" of the AIG CDS:

> The funding for AIGFP's purchases of the CDOs from the counterparties would come from two sources. First, the counterparties would retain the cash collateral that AIGFP had already posted with respect to the CDS (approximately $30.3 billion). If necessary, AIGFP would provide additional collateral (that also would be retained by the counterparty) to bring the collateral amount in line with a mutually agreed market value of the CDOs on or near the tear up date. The amount of additional collateral that AIGFP will need to post through this process currently is estimated to be in the range of $4 billion to $6 billion.
>
> The remaining cash needed to fund the purchase of the CDOs by AIGFP would come from Maiden Lane III. AIG would provide $5 billion in equity to Maiden Lane III in the form of a subordinated loan. The FRBNY would make a non-recourse loan to Maiden Lane III of up to $30 billion under section 13(3). AIGFP would immediately transfer the CDOs purchased to Maiden Lane III, effectively completing the purchase of the CDOs by Maiden Lane III at their then current market value. The CDOs would then collateralize the loan from FRBNY. These transactions may take place at different times with different counterparties, with the amount of the senior note increasing over time as the transactions with additional counterparties are consummated. [56]
>
> * * *
>
> The primary assets backing the CDOs are residential mortgages (52 percent subprime and ALT-A U.S. RMBS by dollar amount), with the remaining assets composed of CMBS (18 percent), prime or agency-guaranteed mortgage-backed securities (17 percent), other CDOs (10 percent) and other asset-backed securities (2 percent). Ratings on these assets are distributed from Aaa (36%) to below Baa3 (18 percent), with approximately 90 percent of the underlying collateral having been originated between 2004 and 2007.

196. The 6 November 20008 Memo documented that ML III would be consolidated on the FRBNY balance sheet:

> It is expected that Maiden Lane III would be consolidated on the balance sheet of FRBNY. A financial advisor would be hired by FRBNY to manage Maiden Lane III's assets with a view toward maximizing repayment of its obligations with minimum disruption to the financial markets.

E. FALSE CLAIMS ARE PRESENTED

197. The FRBNY "Script for Counterparty Discussions" provided that the FRBNY was giving the counterparties the chance to reduce their exposure to AIG:

> We have asked to meet with you in order to give you an opportunity to substantially reduce your counterparty exposure to AIG and assist in promoting the long-term viability of the company as an ongoing concern. As evidenced by recent government actions, the viability of AIG is an important policy objective given the firm's systemic importance. As we are sure you can appreciate, a collapse of AIG over the weekend of September 13th and 14th following so closely

[56] 6 November 2008 Board of Governors Memorandum Subject: Proposed Steps to stabilize American International Group, pp. 2-3, 13-15.

> after the collapse of Lehman Brothers would have jeopardized the financial system in general, and your financial institution in particular, given your firm's exposure to AIG at the time. Indeed, notwithstanding unprecedented governmental action, there has been a dramatic increase in AIG's CDS spreads, which highlights the significant economic costs that would have been borne by AIG's counterparties had the government not intervened and the sizable counterparty exposure that your firm continues to retain with AIG. For these reasons, it is clear to us that we have a common objective in ensuring the firm's long-term viability.
>
> With these points in mind, we would propose that you make us a compelling offer to unwind all your outstanding CDS contracts with AIG referencing ABS CDOs in exchange for the purchase of the underlying CDOs (where the assets are available) at a percentage of the notional amount for the CDS. Of course, we are open to other proposals you might have that would lead to a final resolution of this complex portfolio and therefore satisfy our common objectives.
>
> Consistent with the economics of the underlying transactions, we recognize that factors such as the replacement costs of the transactions, funding costs of the underlying CDO, collateral posted, and associated credit valuation adjustments should influence your assessments of value. In our view, these assessments should also reflect the cost of the considerable and indirect benefits counterparties have derived from the Federal Reserve's support of AIG and market stability more broadly.
>
> We are seeking your participation as well as the participation of other CDS counterparties. Of course, participation is entirely voluntary; should you decide to participate we would propose to proceed as follows:
>
> 1. Please provide us with contact names so that our representative can confirm trade details such as cusips, notional amounts, collateral posted, etc.
>
> 2. Please indicate a price, in terms of total cash amount equal to a percentage of notional amount of the CDS Transactions in exchange for canceling the CDS Transactions and transferring the assets underlying the CDS to the Federal Reserve.
>
> 3. We will evaluate that offer and reply with a response.

198. The contact names provided by the Counterparties to the FRBNY were as follows:

Counterparty	Name
Bank of America	Mark Guinn, Brian Foley, Steven Ujvary, Jean-Baptiste Binz, Joshua Larson
Goldman Sachs	Sli Meli, Meera Bhutta, Russ Byrne, Darren Dixon
Merrill Lynch	Vickram Mangalgiri, Alex Murdzhev
Societe Generale	David Wolf, Edouard Klehe

199. The AIG CDS counterparties holding CDOs submitted a series of documents in connection with their false claims and executed two agreements also containing false statements: (1) a CDS Termination Agreement; and (2) a CDO forward purchase agreement. The counterparties also provided false claim information on "Annex C" forms and other documents they provided attempting to verify the accuracy of the information they provided, which was in material and substantial respects false.

200. As alleged later in this operative complaint AIG and its counterparties were engaged in a pattern of fraud whereby the multi-sector CDOs were underwritten with par values that substantially and materially exceeded their actual values. AIG was aware of the fraudulent gap between the represented par values of the CDOs and their actual value when AIG wrote CDS protection for the CDOs at the fraudulently inflated values.

201. The AIG CDS counterparties holding CDOs also provided the information to complete an 11-page "Maiden Lane III Counterparty Due Diligence Form" through which the counterparties provided the following categorical information:

COUNTERPARTY DESCRIPTIVE DATA	
1. Full Legal Name of Counterparty	
2. Physical Address of the Counterparty	
3. Country of Incorporation/Formation	
4. Location of Counterparty's Head Office and Principal Country of Business	
5. Legal Form of Counterparty	Corporation, Operating Company, Branch, Limited Partnership, Limited Liability Company, Special Purpose Vehicle, Other
6. Business Type	Bank, Broker-Dealer, Pension Fund, Investment Company, Insurance Company, Mutual Fund, Money Service Business, Other
7. Is this counterparty more than 50% owned by a government or government agency?	
8. Is the counterparty publicly traded?	
9. Website Address of Counterparty	

10. Detailed Description of Counterparty's Ownership Structure and Nature of Business **Enter detailed description of the entity's ownership and operational structure, including individual ownership percentages and number of outstanding shares, Ensure all principal owners (>10% ownership) are listed as such on the form and all necessary background checks are performed and supporting documents attached. Ensure all key executives, signatures, and powers of attorney are listed in the designated section and necessary database checks are performed and attached.**
11. Names of Principal Owners **25% or greater ownership in the counterparty of individuals or entities that have funded the counterparty**
12. Names of Key Executives **Senior Members of the Supervisory Board, and most senior executives.**
13. Names of Contractual Parties **Corporate services provider accounts administrator, account bank, security agent, overdraft agent, liquidity bank, lender, funding security agent, or issuer**
14.1 PRINCIPAL OWNERS DESCRIPTIVE DATA
Name, address, SSN/TIN, ownership percentage
15. WEALTH PROFILE
Original source of wealth, asset verification source
16. Key Executives, Signatories, Powers of Attorney
Name, Address, Relation to Account Owner,
SCREENING RESULTS
17. Negative Publicity About Counterparty, Primary Owners, Key Executives
18. Has Counterparty, its Primary Owners, Key Executives, Directors Ever Been Involved or Convicted of A Criminal Offense
19. Other Searches Complete & Results,
20. OFAC/Sanctions Checks Complete
21. Politically Exposed Person (PEP)
22. Names of any Family Members or Closes Associates of Individuals Identified as PEPs
23. Screen Completed on these Family Members and Close Associates?
26. All background information reviewed and NO negative results found?
COUNTERPARTY REPUTATION
27. Has the counterparty been involved in any public regulatory enforcement actions in the last five years?
28. Is the counterparty headquartered in or does it operate in a country / jurisdiction widely believed to have a lax regulatory regime with respect to money laundering and terrorist financing?
29. Has the counterparty experienced any adverse financial setback (e.g. bankruptcy, significant credit rating downgrade) in the last five years"

30. Has the counterparty been fined or others had its license revoked, suspended or restricted in the last five years?
31. ADDITIONAL COMMENTS

202. A binder was developed on a counterparty-by-counterparty basis reflecting information that FRBNY senior management was provided in connection with discussions and negotiations with the counterparties. The binder included the following:

Category of Document	Detail
Summary Bullets on Counterparty	Lay out what we know/think w/r/t counterparty, negotiation stance of counterparty, whether counterparty owns reference asset, is it financed, what do we think they are marking it at, what offers have counterparties made for tear-ups?
Information on exposure	Summary Information on Portfolio, Notional Amount, Marks (9/15 collateral implied, current collateral implied, implied by counterparty collateral call, AIG's marks, Blackrock's mark), collateral posted, rating of underlying, vintage of underlying, asset class of underlying, what percentage is the underlying CDO of the face value of its tranche?, Details of the portfolio, each reference assets with marks, collateral posted, ratings of underlying, vintage, asset class, expected credit event date in base, stress and extreme scenarios
Details of Credit Support Annex by Counterparty	Calculation of exposure, definition of exposure, who determines "market value," process for resolving disputes, rating agency impact-AIG or underlying, Threshold calculation, independent amount calculation, matrix for posting requirements, downgrade trigger for termination/termination payments, cost of early termination due to a breach of downgrade trigger borne by the counterparty
Draft legal documents	Purchase agreement, termination agreement, short summary term sheet

F. FALSE CLAIMS ARE PAID

203. In and around 25 November 2008, the FRBNY and Treasury Department disbursed $20.5 billion to purchase RMBS owned or held by AIG in connection with AIG's Securities Lending Program. The RMBS AIG purchased came from AIG's reinsurance investment portfolios.

204. There was about $ 17 billion of unrealized losses in the AIG reinvestment pool. The federal funds claimed by AIG though Maiden Lane II are illustrated in the following table:

FRBNY FUNDS FOR AIG RMBS
$19.5 billion for RMBS
$1 billion AIG
Total: $20.5 billion

205. Beginning in and around 16 September 2008 and continuing to on and after 25 November 2008, the FRBNY and Treasury Department distributed or reimbursed AIG $35 billion in cash collateral payments, distributed $26.8 billion to AIG's CDS counterparties holding CDOs, and paid an additional $2.5 billion to AIG for a total of $29.3 billion as illustrated:

FRBNY FRUNDS FOR AIG CDS AND CDO
$35 billion Collateral Calls to AIG Counterparties
$26.8 billion to AIG Counterparties
$2.5 billion to AIG
Total: $64.3 billion

206. The FRBNY and the Treasury Department distributed a total of $84.8 billion in connection with AIG's RMBS and CDS written on CDOs as illustrated:

FRBNY AND TREASURY FUNDS DISTRIBUTRED FOR AIG'S RMBS AND CDS AND CDO	
FRBNY, Treasury Department Funds for AIG RMBS	$20.5 billion
FRBNY, Treasury Department Funds for AIG RMBS and CDS written on CDOs	$64.3 billion
Total	$84.8 billion

207. On 4 November 2008, Fed Board members raised concerns that the FRBNY was over paying for the CDOs as evidenced by a related internal FRBNY email:

> Concessions: the worry is that giving the counterparties par in exchange for the underlying CDO security might be giving them a **gift** - they no longer have AIG credit risk, and whatever CVA[57] they have taken against potential future exposure to AIG will be released upon tear- up. If a counterparty has not received all the collateral it has called for, the tear- up eliminates current exposure also. On the other hand, AIG is now receiving government support so the perceived credit risk of AIG is less. Also, AIG needs to get the CDS torn up to put its problems behind it, so its **bargaining** power may be weak. If I understand the current version of the proposed structure, any concessions will result in an excess amount left in the escrow account which pays down the Fed's senior note. This may reduce AIG's incentive to **bargain** for the best concession possible. Is Morgan Stanley or some advisor from our side embedded in the tear- up negotiations to track these issues? Goldman: is a special case because their CDS with AIG are a naked short **position** and they don't own the bonds. If the CDS are just torn up at current mark- to-market, the value of that mark influences the cash Goldman will receive in a way that is not the case for the counterparties who own the bonds and will be receiving par. The Fed, Goldman's senior management, and Treasury all have an interest in making sure the negotiation of the mark between AIG and Goldman is done in a fair way. However, the normal procedure might be for the negotiations to be done between someone at AIGFP and their counterpart on a trading desk at Goldman. A Goldman trader may not share the perspective of Goldman's senior management and may attach higher value to an extra billion dollars of P& L that could affect his or her 2008 **bonus**, even if that carries **significant** reputation risk for Goldman as a firm. Again, is Morgan Stanley or some advisor involved here and aware of the issue? Is there a contingency plan to approach Goldman at a more **senior level** if roadblocks start appearing in the negotiations?

208. FRBNY payment of par for the CDOs held by the counterparty defendants was also confirmed in a 7 December 2008 internal FRNBY email exchange amongst FRBNY Assistant Vice President Alex Latorre and Richard Charlton, Counsel and Assistant Vice President FRBNY:

[57] CVA refers to Credit Value Adjustment, which is the measurement of counterparty credit risk on the CDO OTCM.

Alex, that's because the counterparties got par? Thanks

Yes-by paying par this means they kept whatever collateral posted and ML 3 purchased the CDOs at their marks.

209. Long-time AIG CEO Maurice Greenberg, in a 15 December 2008 letter to then-AIG CEO Edward Liddy, questioned the logic of why the FRBNY was paying higher than market value for the CDOs:

I am curious about the latest change in the AIG terms with the New York Fed (still far from the right mark). One of the Maiden Lane special purpose vehicles purchased approximately $50 billion of CDOs at par, at least that is what has been reported, and obviously canceled the default swaps. It is hard to believe that the counterparties would be carrying the CDOs at par and not have marked them to market. If so, what is the rationale for buying them back at par?

210. Ernst & Young (E&Y) – the accounting conglomerate – was retained by the FRBNY to assist in processing payments to the counterparties. E&Y agents, officers, and employees engaged in direct communications with CDO counterparties in consummating the termination agreements. Several of the termination agreements were struck over the weekend of 9 November 2010 as evidenced by the following related email excerpt:

I received your contact information from **Adam Budnick** and Tom Athan of AIG-FP. The reason I am reaching out to you is to inform you that during the course of the weekend (9 November 2008) we negotiated with a number of AIG's counterparties and offered a transaction where a special purpose vehicle controlled by the Federal Reserve Bank of New York would purchase underlying CDOs in conjunction with the tear- up of associated CDS protection written on those CDOs by AIG.

The terms and conditions we offered to the counterparties we negotiated with this weekend are the same; we are offering those conditions to AIG's other counterparties in these transactions, including your institution.
Attached below is the list of assets of interest. We would appreciate your providing a contact that we can speak with to ensure we agree to the transaction list, notionals, collateral posted, etc. Joseph L. Palumbo Partner, Financial Services, Ernst and Young

211. An earlier AIG internal email between AIGFP officers Joseph Cassano, Andrew Forster, and William Dooley further establishes that the CDOs' market value were materially and substantially below their par value a year before the FRBNY purchased the CDOs. During that year, the CDOs fell further in value:

> Attached is a note from Andy Forster laying out all the collateral call information to date. Andy makes the point in his note that while collateral calls are being "disputed" all the counterparties' are understanding and working with us in a positive framework toward seeking resolution **no one seems to know how to discern a market valuation price** from the current opaque market environment and no one is particularly excited about the issue being left open. All the market participants are keenly aware of the **dramatic lack of liquidity and inability to pursue price discovery** in this segment of the market.

212. In a series of meetings of AIG's board of directors and audit committee, AIG officers, agents and employees acknowledged and documented that AIG had carried the CDS on its books at inflated values.

213. AIG and the defendant counterparties were actively engaged as counterparties, underwriters, managers, and credit protection players in the CDO OTCM with knowledge that the market was permeated with fraudulent practices designed to drive up the par value of the CDOs, the consequential income to the CDO OTCM participants.

214. Although the notional value of the CDOs purchased by the FRBNY was represented as being slightly in excess of $62 billion, the actual notional value of the CDOs for which AIG wrote credit protection was in excess of $219 billion, according to a work sheet prepared by high level AIGFP employee Adam Budnick (Budnick Worksheet). The Budnick Worksheet was entitled "Collateral-Calculations/Calls/Agreements-Negative Basis Book."

XI.

RELATORS' CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF

Against AIG

215. Relators re-allege and incorporate the allegations of all prior paragraphs of the complaint, as though fully set forth herein.

216. Defendants knowingly presented or caused to be presented false or fraudulent claims to the United States government through the New York Fed in connection with (1) the RMBS that was presented through Maiden Lane II, and (2) the CDOs to Maiden Lane III.

217. Defendants knowingly made, used, or caused to be used or made a false record or statement to get a false or fraudulent claim paid or approved by the United States government

through the New York Fed in connection with the RMBS that was presented through Maiden Lane II, and the CDOs to Maiden Lane III.

218. Defendants conspired to defraud the Government by getting a false claim paid or approved by the Government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs presented through Maiden Lane III.

219. Defendants, when making the false or fraudulent claims, had either actual knowledge or acted in reckless disregard or in deliberate ignorance of the truth or falsity of the information.

220. Defendants made these misrepresentations to obtain payment of funds to which they would otherwise not have been entitled.

221. This course of conduct violated the False Claims Act, 31 USC § 3729 *et seq.*

222. The U.S. Government, unaware of the falsity of the claims and/or statements, and in reliance on the accuracy thereof, was damaged to the extent that these funds were paid.

SECOND CLAIM FOR RELIEF

Against AIG

223. Relators re-allege and incorporate the allegations of all prior paragraphs of this complaint, as though fully set forth herein.

224. Defendants combined, conspired, and agreed together to defraud the United States by knowingly submitting false claims to the United States through the New York Fed for the purpose of getting the false or fraudulent claims paid or allowed and committed the other overt acts set forth above in furtherance of that conspiracy, all in violation of 31 USC § 3729(a)(3), causing damage to the United States.

THIRD CLAIM FOR RELIEF

Against GOLDMAN SACHS defendants

225. Relators re-allege and incorporate the allegations of all prior paragraphs of the complaint, as though fully set forth herein.

226. Defendants knowingly presented or caused to be presented false or fraudulent claims to the United States government through the New York Fed in connection with the RMBS

that were presented through Maiden Lane II and the CDOs presented through Maiden Lane III.

227. Defendants knowingly made, used, or caused to be used or made a false record or statement to get a false or fraudulent claim paid or approved by the United States government through the New York Fed in connection with the RMBS that were presented through Maiden Lane II and the CDOs presented through Maiden Lane III.

228. Defendants conspired to defraud the Government by getting a false claim paid or approved by the Government through the New York Fed in connection with the RMBS that were presented through Maiden Lane II and the CDOs presented through Maiden Lane III.

229. Defendants, when making the false or fraudulent claims, had either actual knowledge or acted in reckless disregard or in deliberate ignorance of the truth or falsity of the information.

230. Defendants made these misrepresentations to obtain payment of funds to which they would otherwise not have been entitled.

231. This course of conduct violated the False Claims Act, 31 USC § 3729 *et seq*.

232. The U.S. Government, unaware of the falsity of the claims and/or statements, and in reliance on the accuracy thereof, was damaged to the extent that these funds were paid.

FOURTH CLAIM FOR RELIEF

Against GOLDMAN SACHS defendants

233. Relators re-allege and incorporate the allegations of all prior paragraphs of this complaint, as though fully set forth herein.

234. Defendants combined, conspired, and agreed together to defraud the United States by knowingly submitting false claims to the United States through the New York Fed for the purpose of getting the false or fraudulent claims paid, or allowed and committed the other overt acts set forth above in furtherance of that conspiracy, all in violation of 31 USC § 3729(a)(3), causing damage to the United States.

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FIFTH CLAIM FOR RELIEF

Against DEUTSCHE BANK defendants

235. Relators re-allege and incorporate the allegations of all prior paragraphs of the complaint, as though fully set forth herein.

236. Defendants knowingly presented or caused to be presented false or fraudulent claims to the United States government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

237. Defendants knowingly made, used, or caused to be used or made a false record or statement to get a false or fraudulent claim paid or approved by the United States government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

238. Defendants conspired to defraud the Government by getting a false claim paid or approved by the Government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

239. Defendants, when making the false or fraudulent claims, had either actual knowledge or acted in reckless disregard or in deliberate ignorance of the truth or falsity of the information.

240. Defendants made these misrepresentations to obtain payment funds to which they would otherwise not have been entitled.

241. This course of conduct violated the False Claims Act, 31 USC § 3729 *et seq.*

242. The U.S. Government, unaware of the falsity of the claims and/or statements, and in reliance on the accuracy thereof, was damaged to the extent that these funds were paid.

SIXTH CLAIM FOR RELIEF

Against DEUTSCHE BANK defendants

243. Relators re-allege and incorporate the allegations of all prior paragraphs of this complaint, as though fully set forth herein.

244. Defendants combined, conspired, and agreed together to defraud the United States by knowingly submitting false claims to the United States through the New York Fed for the

purpose of getting the false or fraudulent claims paid, or allowed and committed the other overt acts set forth above in furtherance of that conspiracy, all in violation of 31 USC § 3729(a)(3), causing damage to the United States.

SEVENTH CLAIM FOR RELIEF

Against MERRILL LYNCH and BANK OF AMERICA defendants

245. Relators re-allege and incorporate the allegations of all prior paragraphs of the complaint, as though fully set forth herein.

246. Defendants knowingly presented or caused to be presented false or fraudulent claims to the United States government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

247. Defendants knowingly made, used, or caused to be used or made a false record or statement to get a false or fraudulent claim paid or approved by the United States government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

248. Defendants conspired to defraud the Government by getting a false claim paid or approved by the Government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

249. Defendants, when making the false or fraudulent claims, had either actual knowledge or acted in reckless disregard or in deliberate ignorance of the truth or falsity of the information.

250. Defendants made these misrepresentations to obtain payment funds to which they would otherwise not have been entitled.

251. This course of conduct violated the False Claims Act, 31 USC § 3729 *et seq.*

252. The U.S. Government, unaware of the falsity of the claims and/or statements, and in reliance on the accuracy thereof, was damaged to the extent that these funds were paid.

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EIGHTH CLAIM FOR RELIEF

Against MERRILL LYNCH and BANK OF AMERICA defendants

253. Relators re-allege and incorporate the allegations of all prior paragraphs of this complaint, as though fully set forth herein.

254. Defendants combined, conspired, and agreed together to defraud the United States by knowingly submitting false claims to the United States through the New York Fed for the purpose of getting the false or fraudulent claims paid, or allowed and committed the other overt acts set forth above in furtherance of that conspiracy, all in violation of 31 USC § 3729(a)(3), causing damage to the United States.

NINTH CLAIM FOR RELIEF

Against SOCIETE GENERALE

255. Relators re-allege and incorporate the allegations of all prior paragraphs of the complaint, as though fully set forth herein.

256. Defendants knowingly presented or caused to be presented false or fraudulent claims to the United States government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

257. Defendants knowingly made, used, or caused to be used or made a false record or statement to get a false or fraudulent claim paid or approved by the United States government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

258. Defendants conspired to defraud the Government by getting a false claim paid or approved by the Government through the New York Fed in connection with the RMBS that was presented through Maiden Lane II and the CDOs to Maiden Lane III.

259. Defendants, when making the false or fraudulent claims, had either actual knowledge or acted in reckless disregard or in deliberate ignorance of the truth or falsity of the information.

260. Defendants made these misrepresentations to obtain payment funds to which they would otherwise not have been entitled.

261. This course of conduct violated the False Claims Act, 31 USC § 3729 *et seq.*

262. The U.S. Government, unaware of the falsity of the claims and/or statements, and in reliance on the accuracy thereof, was damaged to the extent that these funds were paid.

TENTH CLAIM FOR RELIEF

Against SOCIETE GENERALE

263. Relators re-allege and incorporate the allegations of all prior paragraphs of this complaint, as though fully set forth herein.

264. Defendants combined, conspired, and agreed together to defraud the United States by knowingly submitting false claims to the United States through the New York Fed for the purpose of getting the false or fraudulent claims paid, or allowed and committed the other overt acts set forth above in furtherance of that conspiracy, all in violation of 31 USC § 3729(a)(3), causing damage to the United States.

PRAYER FOR RELIEF

WHEREFORE, Relators respectfully request this Court to enter judgment against defendants, as follows:

1. That the U.S. be awarded damages in the amount of three times the damages sustained by the U.S. because of the false claims and fraud alleged within this Complaint, as the Civil False Claims Act, 31 USC § 3729 *et seq.* provides;
2. That pre- and post-judgment interest be awarded, along with reasonable attorneys' fees, costs, and expenses which the Relators necessarily incurred in bringing and pressing this case;
3. That the Relators be awarded the maximum amount allowed to them pursuant the False Claims Act; and
4. That this Court award such other and further relief as it deems proper.

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DEMAND FOR JURY TRIAL

Relators, on behalf of themselves and the United States, demand a jury trial on all claims alleged herein.

Respectfully submitted,

AGUIRRE, MORRIS & SEVERSON LLP

Dated: September 30, 2010

Michael J. Aguirre
Attorneys for Plaintiffs

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA* *ex rel.* DEREK CASADY, an individual; NANCY CASADY, an individual, Plaintiffs, v. AMERICAN INTERNATIONAL GROUP, INC., a Delaware Corporation; THE GOLDMAN SACHS GROUP, INC., a Delaware corporation; DEUTSCHE BANK AKTIENGESELLSCHAFT, a German bank; and DOES 1 through 10, Defendants.	Case No. 10-cv-0431 (JAH) **FILED UNDER SEAL PURSUANT TO 31 USC §3730(b)(2)** **PROOF OF SERVICE BY MAIL** **DO NOT PLACE IN PRESS BOX** **DO NOT ENTER ON PACER**

I am, and was at the time of service of the papers herein referred to, a citizen of the United States, over the age of 18 years and not a party to the within action. I am employed in the county of San Diego, California, in which county the within-mentioned mailing occurred. My business address is 444 West C Street, Suite 210, San Diego, CA 92101.

On September 30, 2010, I caused to be deposited in the United States mail at San Diego, California, in the above-entitled action, in an envelope bearing the requisite postage, a copy of:

FIRST AMENDED FALSE CLAIMS ACT COMPLAINT RELATING TO MAIDEN LANE II LLC AND MAIDEN LANE III LLC

Addressed to: Attorneys for Plaintiff United States of America

Tony West, Assistant Attorney General
Joyce R. Branda, Michael D. Granston, Alan S. Gale, Attorneys, Civil Division
United States Department of Justice
P.O. Box 261
Ben Franklin Station
Washington, DC 20033

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U.S. Attorney's Office
San Diego County Office
Federal Office Building
880 Front Street, Room 6293
San Diego, California 92101-8893

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 30th day of September 2010.

Maria E. Byrnes

Maria E. Byrnes