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Federal Prosecutors Leaning Against Charges in AIG Probe

By AMIR EFRATI

Federal prosecutors, after a two-year investigation, may soon decide not to charge American International Group Inc. executives for their role surrounding financial contracts that nearly brought down the company, according to people familiar with the matter.

Recently obtained evidence has prosecutors leaning against pursuing charges, though no final decision has been made by Justice Department prosecutors in Washington, these people said. A Justice Department spokeswoman declined to comment.

The high-profile probe has centered on Joseph Cassano, people familiar with the matter have said. Mr. Cassano headed a London-based unit of the giant insurer called AIG Financial Products. The unit entered into insurance-like contracts with other financial institutions that ended up being financially disastrous for AIG.

When the mortgage market imploded, AIG had to hand over tens of billions of dollars worth of collateral to financial institutions that had entered into the contracts, known as credit-default swaps, with AIG. These collateral calls nearly felled the company and led to a massive government bailout that's generated intense public outrage and political scrutiny.

At issue in the investigation was whether, starting in 2007, Mr. Cassano and his colleagues deceived investors and the firm's outside auditor about AIG's financial exposure from those contracts, which were tied in part to mortgages, people familiar with the matter have said.

As of last fall, the Justice Department had been planning to empanel a grand jury in Brooklyn, N.Y., to consider an indictment of Mr. Cassano, people familiar with the matter have said. But information obtained in recent months from AIG's outside auditor, PricewaterhouseCoopers LLP, has suspended those plans, these people said.

Mr. Cassano, who no longer works at AIG, is expected to meet with prosecutors this upcoming week to discuss his reasoning behind making the accounting adjustment and other issues related to the swaps, according to a person familiar with the matter.

Representatives for Mr. Cassano and PwC declined to comment. Mr. Cassano's lawyers have maintained he did nothing wrong.

CBS News reported on Friday that Mr. Cassano would meet with prosecutors and that prosecutors likely wouldn't charge him.

Federal prosecutors had been focused on a December 2007 investor presentation in which Mr. Cassano and other AIG executives made reassuring statements and projected confidence about the firm's exposure to the mortgage crisis, people familiar with the matter have said.

Mr. Cassano said at the conference that write-downs tied to the swaps had reached an estimated $1.6 billion. The authorities looked at whether Mr. Cassano should have disclosed to investors that that figure would have been higher by several billion dollars if not for the aid of a value adjustment AIG made, known as "negative basis," those people have said.

Several months later, when AIG disclosed that PricewaterhouseCoopers found a "material weakness" in its accounting of the swaps, it said it would abandon the adjustment, according to company filings.

As of last fall, authorities believed Mr. Cassano may not have properly disclosed the adjustment to PwC, people familiar with the matter have said.

But in a series of meetings last fall, Mr. Cassano's lawyers insisted to federal prosecutors that he had been forthright about the adjustment, according to people familiar with the matter. Prosecutors have since obtained notes written by a PwC auditor from a November 2007 meeting that appear to show Mr. Cassano informed the auditor about the adjustment and its potential positive impact, according to people familiar with the matter. That would make it difficult to bring a strong criminal case against Mr. Cassano, these people said.

The negative basis adjustment hasn't been prosecutors' only concern, but it has been a central issue.

The Justice Department so far has had little success proving there was criminal wrongdoing at financial companies whipsawed by the extraordinary economic events of the last few years. In the first and only securities-fraud case against Wall Street executives in the wake of the credit crisis, two former hedge-fund managers at Bear Stearns were acquitted at trial after being accused of misleading their investors before their funds collapsed.

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