

MEMORANDUM FOR THE RECORD

Event: Interview with Charles Gates, former Analyst at Credit Suisse

Type of Event: Telephone interview

Date of Event: Monday, June 7, 2010 10 a.m.-10:45 a.m.

Team Leader: Dixie Noonan

Location: Commission staff at FCIC office at 1717 Pennsylvania Avenue NW, Suite 800, Washington, DC

Participants - Non-Commission:

- Charles Gates
- Dan Zinman, Counsel to Credit Suisse and Mr. Gates
- Lee Richards, Counsel to Credit Suisse and Mr. Gates

Participants - Commission:

- Dixie Noonan
- Al Crego

MFR Prepared by: Sarah Knaus

Date of MFR: June 17, 2010

Summary of the Interview or Submission:

This is a paraphrasing of the interview dialogue and is not a transcript and should not be quoted as such.

Background/Employment history

- Gates left Credit Suisse (CS) in April 2008. He had been there a little more than 30 years. Gates was an analyst following P&C (property and casualty) insurance stocks. Initially, before the industry was divided he covered life insurance as well. He conducted research on individual P&C insurance companies, including speaking with other analysts at CS as well as CS customers.
- Gates started covering AIG in 1976 while he was at Merrill Lynch, where he worked for 2.5 years before leaving with his immediate superior to join First Boston, which later merged with CS. Gates covered AIG from 1976 until he left CS in April 2008.

- During 2007, Gates wrote research on 17 P&C insurance companies. Several had life insurance operations, but the crux of his work was on P&C insurance companies.
- Gates wrote research reports and conducted sell side research. Buy side analysts would have used his research.
- Gates now works part time as a consultant to a P&C insurance holding company, W.R. Berkley.

December 5, 2007 AIG Investor Meeting, at which Gates asked Cassano: “In the third quarter 10-Q for America International Group [*sic*], it states that you were cognizant that basically your assessment of certain Super Senior credit default swaps and the related collateral, that your estimate of that differs significantly from your counterparties. What does that sentence mean.”

- Gates’s question was based on the statement on page 70 in AIG’s third quarter Form 10-Q.
- Gates asked the question because the issue was intrinsic to understanding the company’s writing of these contracts. “An analyst is like a sponge.”
- Cassano’s answer was somewhat shallow and superficial. AIG devoted six hours to a presentation to give an overview of its financial services business, a presentation that included over 60 slides. Gates thought they were attempting to address the issue.
- Gates didn’t follow up further on Cassano’s answer to his question because this was an unusual situation. The meeting was held in a large room with 250-300 people in attendance. There were three groups of people present: (1) company representatives; (2) sell side insurance analysts (like Gates); and (3) investors and interested observers. There were many people waiting to ask questions and not a great opportunity to follow up.
- With respect to Cassano’s answer where he said: “And we have from time to time gotten collateral calls from people and then we say to them, well we don’t agree with your numbers. And they go, oh, and they go away.” Gates, when asked by the FCIC, said that it would probably have been material to him if he had known that in fact AIG’s counterparties didn’t all just go away, and that AIG had already posted over a billion dollars in collateral to one of its counterparties. It would have been material because we’re talking about a lot of money. And again, analysts are like sponges and always want more information.

February 11, 2008 AIG Form 8-K announcing losses

- Gates said that the 8-K made him believe that the issue was of graver import than he had initially foreseen.
- Gates studied the issue on a recurring basis. The issue was very important. (Concerning the company's acknowledgement on 2/11/08 that there was a question by its auditors about the company's financial controls.) AIG was very important. (It had the largest market cap of the 17 companies Gates covered.)

Gates research reports that focus on FP

- Gates did a report on AIG in October 2007, maybe on the 25th, that largely focused on the subprime issue and various ramifications of that. He also published a report immediately following the December 5 investor meeting, probably on December 8th. Gates would have discussed FP (Financial Products) to some extent in other research reports, but the October 2007 one focuses on it the most.
- Gates's lawyer will send us the October and December 2007 reports, as well as all reports Gates wrote on AIG in 2008 before he left CS in April 2008.