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U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 21384 / January 20, 2010

Accounting and Auditing Enforcement Release No. 3108 / January 20, 2010

Securities and Exchange Commission v. General Re Corporation, Civil Action No. 10 Civ 458 (S.D.N.Y.)

SEC Charges General Re Corporation for Role in AIG and Prudential Accounting Frauds

The Securities and Exchange Commission today charged General Re Corporation for its involvement in separate schemes by American International Group and Prudential Financial, Inc. to manipulate and falsify their reported financial results.

The complaint alleges that a foreign subsidiary of Gen Re entered into two sham "reinsurance" transactions with AIG in 2000 to improperly allow AIG to reverse the declining reserve trend and falsely report additions to both loss reserves and premiums written. Senior officials at Gen Re helped AIG structure the two sham transactions. The contracts show reinsurance transactions that appeared to transfer risk to AIG, but the transactions did not transfer risk.

The complaint further alleges that Gen Re separately entered into a series of sham reinsurance contracts with Prudential's property and casualty division from 1997 to 2002. The contracts had no economic substance and purpose other than to allow Prudential to build up and then draw down on an off-balance sheet asset or "finite bank" parked with Gen Re. As a result of the sham transactions, Prudential improperly recognized more than \$200 million in revenues in 2000, 2001, and 2002. Gen Re received fees totaling \$8.1 million for structuring and executing the scheme with Prudential.

Without admitting or denying the allegations in the complaint, Gen Re has consented to a judgment enjoining it from aiding and abetting violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 and directing it to pay \$12.2 million in disgorgement and prejudgment interest. The settlement is subject to court approval.

In determining to accept Gen Re's settlement offer, the SEC took Gen Re's remediation efforts and cooperation into account. Among the efforts SEC considered: Gen Re's comprehensive, independent review of its operations conducted at the outset of the government's investigations the results of which were shared with investigators; Gen Re's substantial assistance in the government's successful civil and criminal actions against individuals involved in the scheme with AIG; and Gen Re's internal corporate reforms designed to strengthen oversight of its operations. Those reforms entail dissolving a subsidiary involved with the AIG transactions, appointing an independent director to its Board of Directors, forming a committee consisting of senior managers to review and approve complex transactions, requiring legal review of proposed finite or loss mitigation contracts, and fortifying its internal audit functions and underwriting rules.

The SEC previously charged AIG with securities fraud and improper accounting, and the company settled the charges by paying more than \$800 million among other remedies. The SEC also previously charged AIG former chairman Maurice R. "Hank" Greenberg and former chief financial officer Howard I. Smith, as well as former senior executives

of Gen Re for their roles in connection with the scheme with AIG. The Commission separately charged Prudential with securities laws violations in 2008.

See Also: [SEC Complaint](#)

<http://www.sec.gov/litigation/litreleases/2010/lr21384.htm>

Last modified: 1/20/2010