

6/24/09

From: David Trainer <david.trainer@newconstructs.com>
Date: June 23, 2009 2:28:27 PM CDT
To:
Subject: Re: Testimony for Monday's SII Subcommittee Hearing

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Attached are two files showing extraordinary growth in CDS activity for AIG and BAC. For both companies, the notional values of the CDS derivatives increase at abnormal (versus peers) and alarming rates. These increases are early warnings that both AIG and BAC were getting in over their heads in the CDS markets. This information would've enabled regulators (and individual investors!!) to, at a minimum, raise questions about CDS a few years before they helped cause AIG and BAC to require major government bailouts.

I think this work (in addition to the info in the Appendices of the presentation I gave you during my visit) serves as an example of the insights New Constructs offers regulators and the capital markets. I cannot emphasize enough how much value New Constructs can add to the integrity of the capital markets by monitoring and evaluating the contents of SEC filings. Most important is that we enable **pro-active** identification of business issues as opposed to the re-active work inundating congress now. Many of the issues identified in our presentation may not be in the headlines today, and they won't be there in the future if we employ the tools available to us now to bring sunlight to corporate obfuscations and enable the investing public to make **informed** decisions.

Please let me know if you have any questions.

David

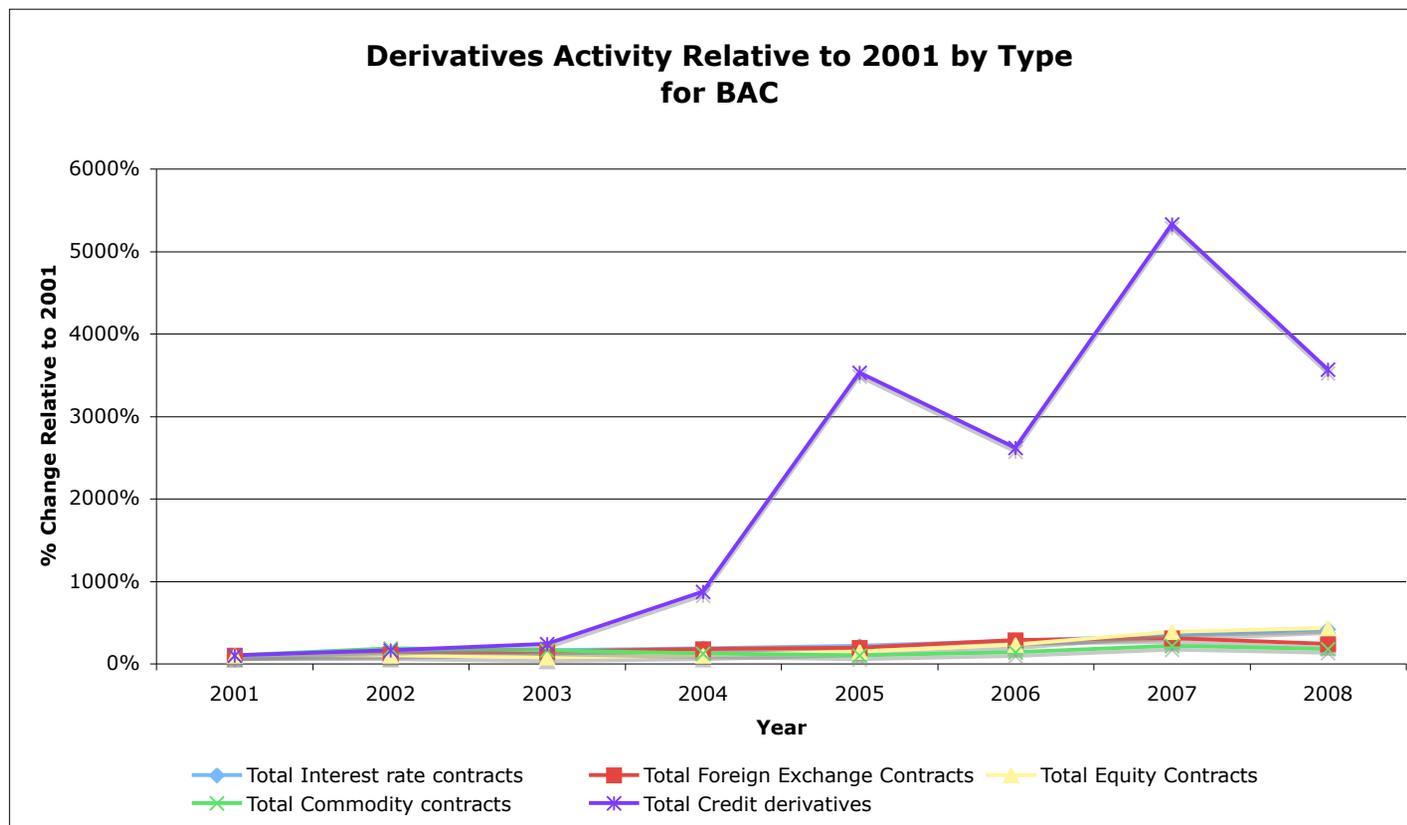
BAC

New Constructs Analysis of OTC Derivatives Activities

Notional Values (in millions)	2001	2002	2003	2004	2005	2006	2007	2008
Total Interest rate contracts	\$8,313,118	\$11,173,000	\$13,618,007	\$15,663,091	\$18,284,801	\$22,822,055	\$27,951,706	\$34,397,183
Total Foreign Exchange Contracts	\$907,817	\$1,061,377	\$1,307,301	\$1,593,462	\$1,721,525	\$2,563,895	\$2,786,810	\$2,190,939
Total Equity Contracts	\$111,385	\$108,850	\$83,997	\$108,181	\$161,507	\$260,054	\$430,450	\$480,416
Total Commodity contracts	\$25,226	\$46,527	\$40,135	\$31,592	\$25,869	\$35,124	\$55,317	\$44,887
Total Credit derivatives	\$57,182	\$92,098	\$136,788	\$499,741	\$2,017,896	\$1,497,869	\$3,046,381	\$2,038,688

Derivative activity relative to 2001. % relative to 2001

Total Interest rate contracts	100%	134%	164%	188%	220%	275%	336%	414%
Total Foreign Exchange Contracts	100%	117%	144%	176%	190%	282%	307%	241%
Total Equity Contracts	100%	98%	75%	97%	145%	233%	386%	431%
Total Commodity contracts	100%	184%	159%	125%	103%	139%	219%	178%
Total Credit derivatives	100%	161%	239%	874%	3529%	2619%	5328%	3565%



AIG

New Constructs Analysis of OTC Derivatives Activities

Notional Values (in millions)	2002	2003	2004	2005	2006	2007	2008
Interest rate swaps	\$631,464	\$756,936	\$858,733	\$837,389	\$1,058,279	\$1,167,464	\$883,062
Credit Default Swaps	\$125,700	\$203,000	\$290,300	\$387,200	\$483,648	\$561,813	\$305,539
Currency Swaps	\$185,531	\$226,222	\$275,466	\$211,519	\$218,091	\$224,275	\$194,331
Swaptions, equity and commodity swaps	\$186,014	\$193,514	\$151,789	\$175,097	\$180,040	\$178,967	\$131,927

Derivative activity relative to 2002. % relative to 2002

Interest rate swaps	100%	120%	136%	133%	168%	185%	140%
Credit Default Swaps	100%	161%	231%	308%	385%	447%	243%
Currency Swaps	100%	122%	148%	114%	118%	121%	105%
Swaptions, equity and commodity swaps	100%	104%	82%	94%	97%	96%	71%

