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TROUBLED ASSET RELIEF PROGRAM

The U.S. Government Role as Shareholder in AIG, Citigroup, Chrysler, and General Motors and Preliminary Views on its Investment Management Activities

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Highlights

Highlights of GAO-10-325T, a report to The Subcommittee on Domestic Policy, Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The recent financial crisis resulted in a wide-ranging federal response that included infusing capital into several major corporations. The Troubled Asset Relief Program (TARP) has been the primary vehicle for most of these actions. As a result of actions and others, the government is a shareholder in the American International Group (AIG), Citigroup Inc. (Citi), Chrysler Group LLC (Chrysler), and General Motors Company (GM), among others. As market conditions have become less volatile, the government has been considering how best to manage these investments and ultimately divest them. This testimony discusses (1) the government's approach to past crisis and challenges unique to the current crisis; (2) the principles guiding the Department of the Treasury's implementation of its authorities and mechanisms for managing its investments; and (3) preliminary views from GAO's ongoing work with the Special Inspector General for TARP on the federal government's monitoring and management of its investments. This statement builds on GAO's work since the 1970s on providing government assistance to large corporations and more recent work on oversight of the assistance and investments provided under TARP.

In its November 2009 report, GAO recommended that Treasury ensure it has expertise needed to monitor its investment in Chrysler and GM and that it has a plan for evaluating the optimal method and timing for divesting this equity.

View GAO-10-325Tor key components.
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What GAO Found

Looking at the government's role in providing assistance to large companies dating back to the 1970s, we have identified principles that serve as a framework for such assistance; including identifying and defining the problem, setting clear goals and objectives that reflect the national interests, and protecting the government's interests. These actions have been important in the past, but the current financial crisis has unique challenges, including the sheer size and scope of the crisis, that have affected the government's actions. As a result, the government's response has involved actions on the national and international levels and oversight and monitoring activities tailored to specific institutions and companies. We have also reported on considerations important for Treasury's approach to monitoring its investments in the companies that received assistance.

The administration developed several guiding principles for managing its ownership interest in AIG, Citigroup, Chrysler, and GM. It does not intend to own equity stakes in companies on a long-term basis and plans to exit from them as soon as possible. It reserves the right to set up-front conditions to protect taxpayers, promote financial stability, and encourage growth. It intends to manage its ownership stake in institutions and companies in a hands-off, commercial manner and to vote only on core governance issues, such as the selection of a company's board of directors. Treasury has also required companies and institutions that receive assistance to report on their use of funds and has imposed restrictions on dividends and repurchases, lobbying expenses, and executive compensation, among other things. As part of its oversight efforts, it also monitors a number of performance benchmarks. Chrysler and GM will submit detailed financial and operational reports to Treasury, while an asset management firm will monitor the data on Citi, including credit spreads, liquidity and capital adequacy. To monitor its investment in AIG, Treasury coordinates with the Federal Reserve Bank of New York in tracking liquidity and cash reports, among other indicators.

Treasury directly manages its investment in Citi, Chrysler, and GM, but the common equity investment in AIG, obtained with the assistance of the Federal Reserve, is managed through a trust arrangement. Each of these management strategies has advantages and disadvantages. Directly managing the investment affords the government the greatest amount of control but could create a conflict of interest if the government both regulates and has an ownership share in the institutions and could expose the government to external pressures. A trust structure, which places the government's interest with a third party, could mitigate any potential conflict-of-interest risk and reduce external pressures. But a trust structure would largely remove accountability from the government for managing the investment. GAO is reviewing Treasury's plans for managing and divesting itself of its investments, but the plans are still evolving, and Treasury has yet to develop exit strategies for unwinding the investments.