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February 26, 2007

Ms. Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549-9303

Dear Ms. Morris

Re: File Number S7-24-06, *Management's Report on Internal Control Over Financial Reporting*

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC) proposed interpretive guidance *Management's Report on Internal Control Over Financial Reporting* (proposed interpretive guidance). We are supportive of the concept of having management evaluate and report on the effectiveness of Internal Controls over Financial Reporting (ICFR) each year and support the SEC's attempts to improve the efficiency and effectiveness of management's annual evaluation of internal controls. We believe this principals-based proposed interpretive guidance will help management move away from its existing reliance on the auditing standards for guidance in implementing management's evaluation of ICFR.

When considering this interpretive guidance, we should bear in mind that the Sarbanes-Oxley Act was created in response to a number of significant frauds that had occurred relating to financial reporting. The activities that promulgated the fraudulent reporting were orchestrated by very senior members of management and had little relevance to transaction-level controls. However, both management's annual assessment and the external auditor's annual evaluation of ICFR currently focus significant resources on transactional-level controls. Fraudulent financial reporting of a material nature will normally involve the knowing approval and active involvement of executive management. Therefore, given the genesis of the Act, we would expect that assessments would focus on the potential means of fraudulent financial reporting, including significant transactions such as late or unusual journal entries, improper related-party transactions, and over-riding of existing reports and financial data which are not routinely detected by transactional-level controls.

While a risk-based approach will focus management of the key financial reporting risks, we would also expect that the annual evaluation of ICFR will move away from its current focus on transactional-level controls and properly focus on company-level controls. We would expect the external audit focus to follow. This focus on company-level controls should have a direct linkage to reductions in the number of transactional-level controls that need to be evaluated. We do not believe the proposed interpretive guidance makes this point strongly enough. As this concept is somewhat abstract, we strongly urge the SEC to provide meaningful examples of how effective company-level controls can directly reduce or eliminate transactional-level control assessment.



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While this proposed interpretive guidance helps to clarify a top down, risk based approach, we continue to have significant reservations about the inter-relationship of the SEC's guidance for management and the proposed audit guidance issued by the PCAOB. While distinctly separating management's assessment of ICFR from that of the external auditor makes sense, we believe that registrants whose evaluations diverge significantly from the approach of their external auditor will cause their external auditor to increase the amount of documentation they need to create. Having spent several years creating a streamlined approach by coordinating with the external auditors, we would be concerned if the proposed guidance led to two differing evaluation processes.

The proposed interpretive guidance attempts to find ways to lessen the documentation burden of registrants, indicating that existing documentation such as policies and procedures manuals, corporate policies, daily management activities, etc. can be used to evidence the effectiveness of ICFR. While they are helpful, in our view the only way to carry out an effective evaluation and provide the Chief Executive Officer and Chief Financial Officer with the appropriately documented support needed to sign the various attestations required under the Sarbanes Regulations is to fully document and assess all key processes identified by a risk assessment. Even if management concludes that they can reduce their level of documentation, external auditors will still require properly documented process flows and evidence of all in scope controls as part of their evaluation. As a result, we do not see this interpretive guidance allowing management to significantly reduce the levels of documentation required to support both management's attestations and the auditor's opinion.

In Appendix A, we have included our responses to the specific questions posed in the proposed interpretive guidance. We would be pleased to discuss our comments and to answer any questions that the SEC staff or the Commission may have.

Sincerely

A handwritten signature in black ink, appearing to read 'Philip V. Bancroft'.

Philip V. Bancroft
Chief Financial Officer
ACE Limited



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Appendix A

1. *Will the proposed guidance be helpful to management in completing its annual evaluation process? Does the proposed guidance allow for management to conduct an efficient and effective evaluation?*

For the most part, it appears that this guidance is formalizing a number of concepts and ideas already put forward by the SEC following the past two roundtables and thus in our opinion does not contain any significant new concepts. It does provide more clarity to the SEC's idea of a top down, risk-based approach which may help registrants migrate from their current evaluation process. However, we believe that moving to a top down, risk-based approach as laid out in the proposed interpretive guidance will be time consuming and costly to registrants so many may choose to maintain their existing process, having invested substantial amounts of time and effort over the last several years.

2. *Are there particular areas within the proposed interpretive guidance where further clarification is needed? If yes, what clarification is necessary?*

Although there has been significant reference to use of risk assessments to define the scope of an organization's internal control efforts, specific examples or models have not been provided as guidance for organizations to follow.

3. *Are there aspects of management's annual evaluation process that have not been addressed by the proposed interpretive guidance that commentators believe should be addressed by the Commission? If so, what are those areas and what type of guidance would be beneficial?*

We believe the key aspects of management's annual evaluation process are addressed by this proposed interpretive guidance.

4. *Do the topics addressed in the existing staff guidance (May 2005 Staff Guidance and Frequently Asked Questions (revised October 6, 2004)) continue to be relevant or should such guidance be retracted? If yes, which topics should be kept or retracted?*

We believe the key topics addressed in the existing staff guidance could be retracted.

5. *Will the proposed guidance require unnecessary changes to evaluation processes that companies have already established? If yes, please describe.*

In our view, the proposed interpretive guidance could cause many registrants to make another sizable investment to convert their current assessment processes, that were built from the bottom up, to a top down risk-based approach. Our experience and observations have been that registrants have not generally been effective at explicitly identifying risk as it relates to financial reporting so the guidance should continue to push registrants to carry out a more effective risk based approach. A properly



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implemented top down, risk based approach will take a significant investment to identify the appropriate risks and related controls that must be executed and documented by people with the necessary skills and expertise to do this effectively and this will likely fall more on Internal Audit staff and dedicated financial compliance staffs. It will also require re-documenting many controls and evaluation plans as new or different controls are identified in the new risk-based model. However, in the long term we believe this approach is essential to ensuring a cost effective process that accomplishes the stated objectives.

6. *Considering the PCAOB's proposed new auditing standards, An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements and Considering and Using the Work of Others In an Audit, are there any areas of incompatibility that limit the effectiveness or efficiency of an evaluation conducted in accordance with the proposed guidance? If so, what are those areas and how would you propose to resolve the incompatibility?*

While this proposed interpretive guidance helps to clarify a top down, risk based approach, we continue to have significant reservations about the inter-relationship of management's guidance and the proposed audit guidance. While distinctly separating management's assessment of ICFR from that of the external auditor makes sense, we believe that registrants whose evaluations diverge significantly from the approach of their external auditor will cause their external auditor to increase the amount of work they carry out. The quality of a registrant's evaluations process, the maturity and effectiveness of its monitoring processes and the quality and objectivity of the individual's carrying out management's assessment will continue to have an impact on the external auditor's evaluation process and will have a significant impact on the amount of work performed by the auditor.

7. *Are there any definitions included in the proposed interpretive guidance that are confusing or inappropriate and how would you change the definitions so identified?*

None.

8. *Will the guidance for disclosures about material weaknesses result in sufficient information to investors and if not, how would you change the guidance?*

We believe the guidance for disclosures about material weaknesses will result in sufficient information to investors. We agree that if a registrant identifies a material weakness in ICFR, the investor is entitled to understand the nature of the deficiency, how pervasive it is, its potential impact and plans for remediation.



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9. *Should the guidance be issued as an interpretation or should it, or any part, be codified as a Commission rule?*

We see no real benefit to codifying this guidance as a Commission rule and thus believe the guidance should be issued as an interpretation. The Sarbanes 404 rules are sufficient enough and the need was for more flexible guidance to assist in implementing the existing rules.

10. *Are there any considerations unique to the evaluation of ICFR by a foreign private issuer that should be addressed in the guidance? If yes, what are they?*

As our Company is an accelerated filer, we have no experience with potential considerations for foreign private issuers.