

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8988 / December 11, 2008

SECURITIES EXCHANGE ACT OF 1934
Release No. 59084 / December 11, 2008

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2909 / December 11, 2008

ADMINISTRATIVE PROCEEDING
File No. 3-13307

In the Matter of

SCOR Holding (Switzerland) Ltd.,
formerly known as Converium Holding AG,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against SCOR Holding (Switzerland) Ltd., formerly known as Converium Holding AG (“Converium” or “Respondent”).¹

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the

¹ All of the conduct that gave rise to this proceeding took place prior to Converium being acquired by SCOR SE, the parent company of SCOR Holding (Switzerland) Ltd. The conduct described in this Order occurred prior to October 2005. The tender offer by SCOR SE for all publicly-held shares of Converium was consummated on August 8, 2007, at which time Converium became a subsidiary of SCOR SE. In September 2007, Converium was renamed SCOR Holding (Switzerland) Ltd.

Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds² that:

SUMMARY

1. Converium engaged in a fraudulent scheme to improperly inflate its financial performance through the use of finite reinsurance transactions. The scheme began in 1999, when Converium was a business unit of Zurich Financial Services ("Zurich"), operating under the name Zurich Re. Zurich developed three reinsurance transactions for the purpose of obtaining the financial benefits of reinsurance accounting. However, in order for a company to obtain the benefits of reinsurance accounting, the reinsurance transaction must transfer risk. Here, Zurich designed the transactions to make it appear that risk was transferred to third-party reinsurers, when, in fact, no risk had been transferred outside of Zurich-owned entities. For two of the transactions at issue, Zurich ceded risk to third-party reinsurers, but took it back through reinsurance agreements – known as retrocessions – with another Zurich entity. For the third transaction, Zurich ceded the risk to a third-party reinsurer but simultaneously entered into an undisclosed side agreement with the reinsurer pursuant to which Zurich agreed to hold the reinsurer harmless for any losses the reinsurer realized under the reinsurance contracts. Because the ultimate risk under the reinsurance contracts remained with Zurich, these transactions should not have been accounted for as reinsurance.

2. In March 2001, Zurich announced its intent to spin off its assumed reinsurance business in an initial public offering. Zurich then created Converium, which assumed the rights and obligations of Zurich's assumed reinsurance business. On December 11, 2001, Converium conducted its IPO. As a result of the fraudulent finite reinsurance transactions and the improper accounting treatment they received, Converium's IPO documents, including the Form F-1 it filed with the Commission, were materially misleading. Among other things, Converium understated its reported loss before taxes by approximately \$100 million (67%) in 2000 and by approximately \$3 million (1%) in 2001. In addition, for certain periods, the transactions had the effect of artificially decreasing Converium's reported loss ratios for certain reporting segments – the ratio between losses paid by an insurer and premiums earned that is frequently cited by analysts as a key performance metric for insurance companies.

3. Zurich's and Converium's fraud had a significant impact on investors who purchased shares in the IPO. Through the IPO, which was the largest reinsurance IPO in history,

² The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Zurich raised significantly more than it would have raised had Zurich and Converium not each engaged in fraud.

4. Following the IPO, Converium continued the fraudulent scheme. Converium entered into two additional reinsurance agreements for which risk transfer was negated by undisclosed side agreements. Converium also entered into transactions to reimburse the reinsurer that Zurich had agreed to indemnify in a pre-IPO side agreement. In 2003, Converium took affirmative steps to conceal the fraud from the Financial Services Authority of the United Kingdom.

5. On November 4, 2005, Converium announced its intention to restate prior period financial statements and, on December 19, 2005, disclosed that it had incorrectly accounted for a number of transactions as reinsurance. On March 1, 2006, Converium filed with the Commission an amended Form 20-F which contained restated financial statements for the years ended December 31, 1998 through December 31, 2004 (the "Restatement").

6. As a result of the foregoing conduct, Converium violated Section 17(a) of the Securities Act, and Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 10b-5, 12b-20, and 13a-1 thereunder.

RESPONDENT

7. **Converium, now known as SCOR Holding (Switzerland) Ltd.**, is a corporation organized under the laws of Switzerland. Converium is a global reinsurance company that offers property, casualty, life and non-life reinsurance products. Zurich formed Converium in 2001 by transferring the rights and liabilities of the reinsurance businesses that made up Zurich's assumed reinsurance business, which operated under the name Zurich Re. Converium began operations under the Converium brand name on or around October 1, 2001. From that time, until December 11, 2001, Converium operated as a wholly owned subsidiary of Zurich. In December 2001 and January 2002, pursuant to the Registration Statement and Prospectus, Zurich sold 40 million shares of Converium in the form of shares and American Depositary Shares ("ADSs"), representing its entire stake in Converium, for proceeds of approximately \$1.9 billion. From December 11, 2001 until August 8, 2007, Converium was an independent publicly-traded company. In August 2007, SCOR SE, a French reinsurer acquired Converium. In August 2007 SCOR held 96.23% of Converium's shares following the completion of a tender offer, and Converium became a subsidiary of SCOR. Converium's name was changed to SCOR Holding (Switzerland) Ltd. in September 2007. Between December 11, 2001 and January 7, 2008, Converium's common stock and ADSs were registered with the Commission pursuant to Section 12(b) of the Exchange Act. On January 7, 2008, Converium shares and ADSs were delisted from the New York Stock Exchange. On May 23, 2008, SCOR (the parent company) announced that the remaining publicly held shares of SCOR Holding (Switzerland) Ltd.'s shares had been cancelled and that the shares would be delisted from the SWX Swiss Exchange on May 30, 2008, with May 29, 2008 as the last day of trading. In 2007, SCOR delisted its own ADSs from the New York Stock Exchange and terminated the registration of its securities under the Exchange Act. SCOR's ADSs currently trade on the pink sheets under the symbol SCRY and its common stock trades on the Euronext under the symbol SCR and on the SWX Swiss Exchange.

OTHER RELEVANT PERSONS AND ENTITIES

8. **Zurich** is a corporation organized under the laws of Switzerland with its principal place of business in Zurich, Switzerland. Prior to Converium's IPO, Zurich restructured its reinsurance operations and transferred substantially all of the reinsurance business operated under Zurich Re to Converium.

9. **Inter-Ocean Reinsurance Company, Ltd.** ("Inter-Ocean") is a Bermuda corporation with its principal corporate offices in Bermuda. Inter-Ocean is a wholly-owned subsidiary of Inter-Ocean Holdings, Inc., which was formed in 1990 as a joint venture between ten reinsurers. In 1998, Zurich acquired a 9.9% interest in Inter-Ocean effective at the end of that year. Prior to Converium's IPO, Zurich transferred its 9.9% interest in Inter-Ocean to Converium.

Reinsurance Accounting Principles

10. In basic terms, reinsurance is insurance for insurers. Reinsurance is the transfer of the insurance risk by the primary insurer to a second insurance carrier, called the reinsurer, in exchange for a payment or premium.

11. Whether a contract is accounted for as reinsurance depends on whether the contract indemnifies the ceding company – here Zurich and Converium – from loss or liability. Such indemnification is known as risk transfer. Risk is transferred when (1) the reinsurer assumes significant insurance risk and (2) it is reasonably possible that the reinsurer will realize a significant loss in the transaction. A risk transfer analysis for a contract emphasizes substance over form, and Generally Accepted Accounting Principles ("GAAP") require "an evaluation of all contractual features that . . . limit the amount of insurance risk to which the reinsurer is subject"³ Accordingly, under GAAP, "if agreements with the reinsurer . . . in the aggregate, do not transfer risk, the individual contracts that make up those agreements also would not be considered to transfer risk, regardless of how they are structured."⁴

12. Where there is insufficient risk transfer, a transaction may not be treated as reinsurance under GAAP, and must be accounted for using the deposit method, which lacks the potential accounting benefits of reinsurance accounting. Under reinsurance accounting, when losses on the ceded business are incurred, the ceding insurer records an offset to the increase in its gross loss reserves in an amount equal to the reinsurance it expects to recover from the reinsurer, thus increasing its net income by that amount. Deposit accounting has no comparable income statement benefit.

³ FASB, Statement of Financial Accounting Standards No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (December 1992), para. 8.

⁴ FASB, Emerging Issues Task Force Topic D-34, *Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113* (July 22, 1993), Question 13.

13. From 1999 through 2004, Zurich, and later Converium, designed five reinsurance transactions that created the *appearance* of risk transfer in order to benefit from reinsurance accounting. Three of the five transactions were entered into prior to the December 2001 IPO and affected the financial statements Converium included in the IPO prospectus. In two of the three pre-IPO transactions, Zurich purchased reinsurance from Inter-Ocean, which, in turn, ceded these liabilities to a Zurich entity (the “Inter-Ocean transactions”). Zurich’s use of Inter-Ocean as an intermediary in the transaction helped obscure the transactions’ circular structure and the fact that Zurich had merely moved the risk from one Zurich entity to another. In the remaining transactions, including one pre-IPO transaction, Zurich and later Converium entered into reinsurance transactions for which the contract terms were all undone through undisclosed side agreements or purportedly unrelated contracts. Effectively, these side agreements or unrelated contracts protected the reinsurer against losses suffered under the reinsurance contract and placed all risk of loss on a Zurich or Converium entity. Zurich and later Converium improperly accounted for these transactions using reinsurance accounting.

The Circular Inter-Ocean Transactions

The Medical Defence Union Transactions

14. In 2000, Zurich sought reinsurance for medical malpractice coverage it provided to British doctors who were members of the Medical Defence Union (“MDU”). In an April 25, 2000 e-mail concerning expected losses related to the MDU contract, the Chief Executive Officer of certain Zurich Re entities and later Converium (the “CEO”) informed Zurich Re’s (and later Converium’s) Chief Underwriting Officer (the “CUO”) that “we need to begin working on the actual placement of the [MDU] stop loss to relieve the GAAP hit” for Zurich.⁵ Internally, Zurich personnel used the term “GAAP hit” to mean the expense and increased reserve requirements associated with the medical defense coverage. The expense would decrease or “hit” reported income. The CEO warned that, in obtaining the reinsurance, “we need to be conscious of the issue of circularity.”⁶

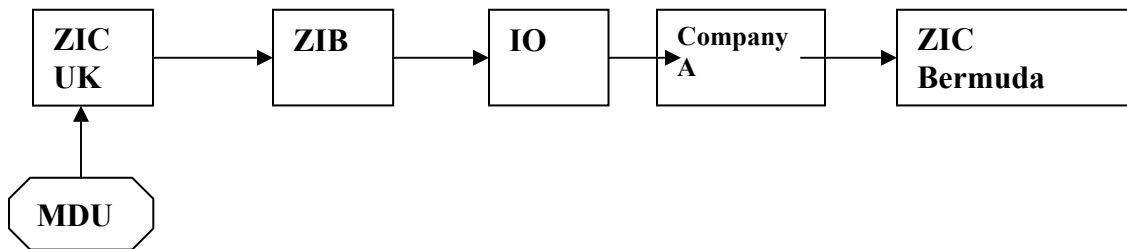
15. Between April and December 2000, Zurich attempted to negotiate reinsurance contracts for its MDU business that contained genuine risk transfer. However, by December 2, 2000, Zurich had not found any reinsurer willing to take on such a contract. In December 2000, the CUO emailed the CEO and suggested that Zurich utilize Inter-Ocean or a similar non-controlled foreign corporation. The CEO responded “we need to get something in the books now! We close our books this week.”

16. Soon thereafter Zurich entered into the following agreements: ZIC UK entered into a reinsurance agreement with Zurich Insurance Bermuda (“ZIB”) and ceded 80% of the MDU claims made on business written on or after July 1, 2000. At the same time, ZIB entered

⁵ A stop loss policy is a form of reinsurance that covers all losses above a specified amount.

⁶ Both the CEO and the CUO ceased to be associated with Converium before it announced it would restate its financial statements. Neither was ever associated with SCOR.

into a reinsurance agreement with Inter-Ocean to cover a portion of ZIB's MDU liabilities for the 2000 policy year. This agreement provided for Inter-Ocean to cover ultimate net losses in excess of 85% of gross premiums written for the 2000 policy year. Inter-Ocean then ceded all the liabilities it had assumed under the ZIB/Inter-Ocean agreement to an unaffiliated reinsurer (Company A). Company A, in turn, ceded all the liabilities to a Zurich affiliate, ZIC Bermuda.



17. Although Zurich accounted for the transactions with Inter-Ocean and Company A as reinsurance, in reality, Zurich had re-circulated the risk from one Zurich entity to another, while interposing intermediaries (Inter-Ocean and Company A) that obscured the transaction's circular structure. Because this transaction was circular, there was no risk transfer and Zurich and later Converium should not have accounted for the contract as reinsurance. As a result, and as reported in Converium's December 2001 Form F-1, Converium understated its pre-tax losses for the year ended December 31, 2000 by \$1.36 million.

18. Zurich and Company A renewed the ZIB/Inter-Ocean agreement in 2001 to include MDU business written from January 1, 2001 through March 31, 2002. At the time the parties negotiated the agreement, Zurich had already announced its intention to spin-off its reinsurance operations. Due to the increased scrutiny of Zurich's contracts occasioned by the due diligence for the IPO, the CUO requested that the 2001 MDU reinsurance contracts not include specific cross references that might have revealed that the reinsurance structure was circular. The contracts ultimately executed by the parties did not specifically reference the other related agreements.

19. As a result of the MDU transaction, in its Form 20-F filings for the years ended December 31, 2001, 2002 and 2003, Converium understated its pre-tax losses for 2001 by \$10.04 million (1.86%) and overstated its pre-tax income for 2002 by \$6.52 million (9.49%) and by \$14.47 million (7.39%) for 2003.

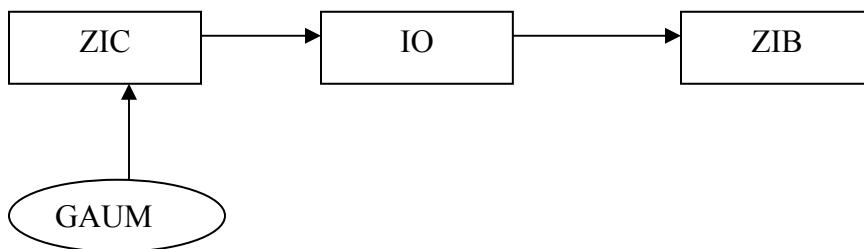
The GAUM Transaction

20. Just as it had done with MDU, in 2001, Zurich negotiated a circular reinsurance transaction aimed at managing losses related to reinsurance coverage it provided to Global Aerospace Underwriting Managers Ltd. ("GAUM"), an aerospace underwriting pool.

21. In July 2001, Zurich estimated that losses under its reinsurance agreement with GAUM would negatively impact Zurich Re's earnings for the year ended December 31, 2001.

In a July 12, 2001 memo to the CEO and other senior executives, the CUO suggested the “possibility to buy a GAAP cover” for the GAUM business. In an August 31, 2001 email to the CEO and others, the CUO provided the following description of the reinsurance structure, reflecting that Zurich intended it to be circular from early on: “Zurich Re retrocedes a 100% [quota share] of its Stop Loss Reinsurance covering GAUM's net retention for the underwriting year 2001 . . . to InterOcean . . . InterOcean enters into a Speed of Settlement (SOS) excess of loss reinsurance with Zurich Insurance Bermuda . . .”

22. In 2001, Zurich entered into the following transactions: On September 25, 2001, ZIC entered into an excess of loss reinsurance agreement with GAUM covering GAUM’s losses for risks attaching during 2001 in excess of a certain attachment point. On December 5, 2001, ZIC ceded 100% of its risks under the GAUM excess of loss reinsurance agreement to Inter-Ocean, which in turn, ceded all of its liabilities to ZIB.



23. Similar to the MDU transaction, Zurich and later Converium improperly accounted for the GAUM contracts as reinsurance. Specifically, because Zurich reassumed 100% of the risk from Inter-Ocean, it should not have accounted for the contracts as reinsurance. By improperly accounting for the transaction as reinsurance in its Form 20-F filings for 2001 and 2002, Converium understated its pre-tax loss for 2001 by \$4.88 million (0.9%) and overstated its pre-tax income for 2002 by \$4.24 million (6.18%).

Transactions Involving Undisclosed Side Agreements

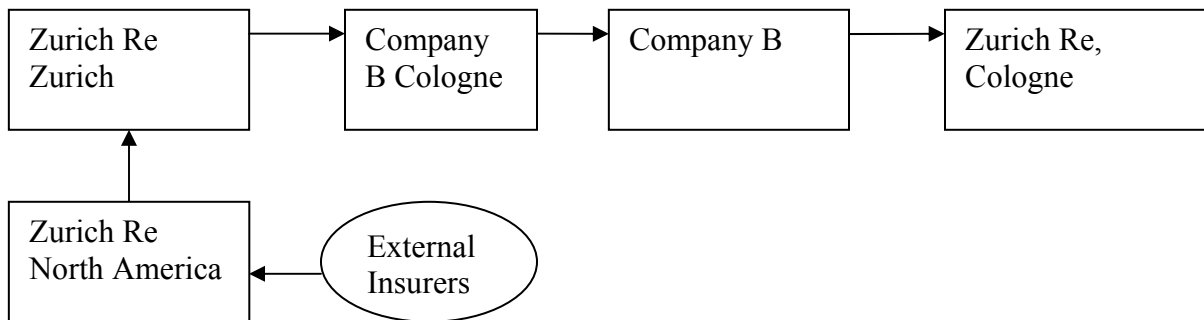
24. In addition to the Inter-Ocean transactions, Zurich and later Converium entered into three reinsurance transactions that appeared to transfer risk, but in fact did not due to side agreements that left the risk with Zurich and Converium. The first of these transactions began before the IPO and involved a reinsurance facility known as the Z-1 Facility. The other two transactions, which are addressed separately below, occurred after Converium’s IPO.

The Z-1 Facility

25. In 1999, Zurich established the Z-1 Facility with a Barbados insurance company (Company B).

26. Under the Z-1 Facility, Company B and a Cologne-based affiliate of Company B (“Company B Cologne”) acted as reinsurers for six finite reinsurance transactions between external cedents and ZIC, in which ZIC had reinsured losses of unaffiliated insurers. ZIC

retroceded 100% of its obligations and premiums to another Zurich division, which then retroceded 100% of its obligations and premiums to Company B Cologne, which then ceded the business to Company B. Company B, in turn, retroceded most but not all of the risk it had assumed from Company B Cologne to a separate Zurich subsidiary, Zurich Re Cologne pursuant to a “speed of settlement” stop loss agreement (“SOS”). A SOS is a type of aggregate stop loss agreement that limits the total losses incurred by the ceding company. Under the SOS, Company B retained the risk of up to \$60 million of losses (including \$10 million of losses under Endorsement 1); Zurich Re Cologne was responsible for aggregate losses above that \$60 million.



Cover B Negates Risk Transfer

27. Although Company B ceded much of the risk it assumed under the Z-1 Facility to Zurich Re Cologne, Company B did not want to have *any* exposure for losses under the Z-1 Facility. Accordingly, Company B sought a commitment from Zurich that Company B would not realize any losses under the Z-1 Facility. The CEO assured the Company B executive responsible for the transaction that Company B would not realize any losses under the Z-1 Facility.

28. The Company B executive insisted on security beyond the CEO’s oral commitment. At the CEO’s instruction, a Zurich employee prepared a separate reinsurance agreement between ZIC and Company B to serve as security for the CEO’s promise. The agreement, which was unrelated to the Z-1 Facility on its face, was structured as a payback mechanism and was intended to reimburse Company B for any losses suffered under the Z-1 Facility. In internal correspondence, Zurich and later Converium referred to the agreement as “Cover B.” Cover B provided ZIC catastrophic coverage for the years 2000 through 2002 in exchange for a total of \$39 million in non-refundable premiums to Company B. The attachment point for coverage under Cover B was set intentionally high -- at a level that neither party expected to be reached. So, although Company B theoretically could have suffered losses under Cover B, the agreement was structured to allow Company B to receive a premium with very little risk. The \$39 million premium figure represented the present value of the maximum possible loss that Company B could suffer under the Z-1 Facility (\$60 million). Moreover, Cover B was drafted to give Company B the option to trigger the parties’

obligations and, by doing so, offset losses, if any, sustained under the Z-1 Facility. In fact, Company B referred to Cover B as the “option contract.”

29. In the fall of 1999, prior to finalizing the terms of Cover B, the Zurich employee who drafted the agreement told the CEO that he believed that Cover B negated risk transfer under the Z-1 Facility. Notwithstanding this warning, the CEO approved Cover B, and on November 18, 1999, the CEO executed it on behalf of ZIC.

30. In December 2000, Cover B was renewed, with the CEO again signing on behalf of ZIC. The terms of the 2000 Cover B agreement were substantially the same as the 1999 Cover B agreement, although the premium amount was increased to \$15 million per year, for a total of \$45 million.

Unicover Losses Are Ceded to the Z-1 Facility

31. In September 2000, Zurich became concerned about the financial statement impact of Zurich’s exposure to losses arising out of Zurich’s involvement in the failed Unicover Occupational Accident Reinsurance Pool (“Unicover Pool”). To address these concerns, Zurich approached Company B about including Zurich’s Unicover Pool exposure under the Z-1 Facility. Specifically, Zurich proposed ceding a potential exposure of \$58.6 million under the Unicover Pool, as well as assorted other potential exposures, in exchange for a \$15 million premium.

32. During a December 20, 2000 dinner with the CEO in Zurich, the Company B executive who negotiated the Z-1 Facility and Cover B agreed to adjust the Z-1 Facility to permit Zurich to cede potential Unicover losses to the Z-1 Facility. The Company B executive agreed to accept the cessions because he believed that Cover B protected Company B from risk of loss under the Z-1 Facility. Cover B was renewed and signed on December 20, 2000.

33. By the time Zurich had completed the Converium IPO, significant losses on the Unicover business had been recorded. Converium ultimately ceded those losses to the Z-1 Facility. Converium was prepared to honor Zurich’s prior commitment that Company B would not suffer any losses under the Z-1 Facility, and Converium did not want Company B to trigger Cover B. To induce Company B not to trigger Cover B, Converium offered to enter into reinsurance agreements that would be structured in such a way as to ensure that Company B would realize sufficient profit to offset the Z-1 Facility losses. The Company B executive described the arrangement and reasoning in an internal memo following a January 2003 meeting with the CEO: “Converium does not want us to trigger the option cover (contract 5), since it would make it obvious that this transaction was a circular transaction. Instead they have offered us [other profitable business] Converium and especially [the CEO] have proved to us that Converium will hold [Company B’s parent] harmless under the [Z-1 Facility]. The option cover (contract 5) [Cover B] was always considered to be a sleep-easy cover in case Converium does not fulfill it’s [sic] obligation they gave to [Company B]”

Converium Cedes Profitable Business to Company B as Payback for Z-1 Losses

34. Consistent with the CEO's representations, Converium entered into three purportedly unrelated agreements with Company B in lieu of the option contract to offset losses ceded to the Z-1 Facility. First, in 2003, Converium entered into a multiple year third event industry warranty catastrophe excess of loss reinsurance contract with Company B for the years 2003 through 2005. Converium purchased coverage for this contract from Company B. As a result, in exchange for providing coverage for a remote layer of risk, Converium paid Company B an \$8 million premium each year.

35. Second, in early 2000, pursuant to a novation agreement, Company B replaced another Bermuda-based reinsurer, as the retrocessionaire for risks related to a pre-existing reinsurance agreement between Zurich and a third-party reinsurer. According to internal Converium and Company B documents, Converium used \$2.6 million in excess fees that would have been payable to the original retrocessionaire but that Company B received in its place to offset a portion of the losses suffered by Company B under the Z-1 Facility.

36. Third, in 2004, in exchange for assuming the risk in connection with a policy for only the final month of a year-long agreement, Company B received the vast bulk of the premiums under the contract - - \$9.85 million of the \$10.2 million annual premium.

37. In connection with the above reinsurance agreements, Converium paid a total of \$35.73 million to Company B as a means of repaying the deficit that had arisen through losses ceded to Company B via the Z-1 Facility.

The Net Effect of the Z-1 Transactions

38. The Z-1 transactions did not transfer insurance risk outside of entities included in Zurich's, and later Converium's, consolidated financial statements and should not have been accounted for as reinsurance. As a result, in its December 2001 Form F-1, Converium understated its pre-tax loss for the year ended December 31, 2000 by \$98.20 million or 66.19%.

The Converium IPO

39. On March 22, 2001, in connection with its announcement of disappointing financial results for 2000, Zurich reported that it intended to exit the assumed reinsurance business. In a September 6, 2001 press release, Zurich announced that its reinsurance business would be spun off in an IPO, and that as of October 1, 2001, the business would operate under the name Converium.

40. As a result of the misrepresentations described above, the IPO offering documents were materially misleading. The Registration Statement and Prospectus filed by Converium in connection with the IPO, which became effective on December 11, 2001, failed to disclose the

impact of the circular Inter-Ocean and the Z-1 Facility transactions on Converium's business operations, financial results and shareholders' equity at the time of the IPO.

41. Converium's historical financial data reported in its prospectus was derived from data from the Zurich subsidiaries combined to form Converium.

42. The statements in the prospectus regarding Converium's financial results for 2000 and the first half of 2001 were materially false and misleading. As a consequence of the pre-IPO circular Inter-Ocean transactions and the Z-1 Facility transactions, rather than reporting a loss before taxes of \$48.8 million for 2000, Converium should have reported a loss of at least \$148.4 million. Also according to Converium's restatement filed on March 1, 2006, as the result of reinsurance transactions, Converium overstated its \$1.09 billion in reported shareholders' equity as of December 31, 2000 by at least \$72.3 million (approximately 6.6% of the total reported shareholders' equity), an amount including the effect of \$100 million attributable to the Inter-Ocean and Z-1 Facility transactions and partially offset by \$27.7 million attributable to other reinsurance transactions not addressed within this Order. Finally, because Converium's loss ratio for its non-life reinsurance business was directly affected by the improperly recorded reinsurance obtained through the circular Inter-Ocean and the Z-1 Facility transactions, Converium materially understated its reported loss ratios for its "Global Non-life" and "Converium Zurich" segments in 2000 and 2001. Had Converium accounted for these transactions as deposits, Converium would have reported for its "Global Non-life" segment a 92.6% loss ratio (a 6% increase from the 86.6% it reported) and for its "Converium Zurich" segment a 94% loss ratio (a 14.5% increase from the 79.5% it reported) in 2000. In 2001, Converium should have reported for its "Global Non-life" segment a loss ratio above 100% (up from the 99.7% reported to 100.2%), which indicates an underwriting loss.

43. On December 11, 2001, Converium conducted its IPO pursuant to the Registration Statement and Prospectus. The Converium IPO was the largest initial public offering of a reinsurance company in history. Moreover, it was the largest initial public offering of a Swiss company in three years. Zurich sold 35 million shares of Converium stock in the IPO at a price of 82 Swiss Francs per share, or \$24.59 per ADS (with each ADS representing one half of one share of stock). The IPO yielded gross proceeds of approximately \$1.7 billion. Zurich received net proceeds of approximately \$1.6 billion from its sale of Converium securities through the IPO.

44. In addition to the 35 million shares Zurich sold in the December 11, 2001 IPO, Zurich granted the underwriters an over-allotment of 5 million shares of Converium stock, representing the remainder of Zurich's interest in Converium. On January 9, 2002, Zurich issued a press release in which it announced that the over-allotment had been exercised, and that it had sold its remaining 5 million shares of Converium. In total, through the IPO, Zurich sold 40 million shares of Converium – every single share of Converium that it owned – and reaped proceeds of approximately \$1.97 billion.

45. As a result of the Inter-Ocean transactions (MDU and GAUM) and the Z-1 Facility, Converium's financial statements contained in Form F-1 filings for the IPO materially overstated shareholders equity as of October 1, 2001. Had Converium properly accounted for

the true nature of the Inter-Ocean and Z-1 Facility transactions, Zurich would have received materially less from its proceeds of the offering.

False Statements in Press Releases

46. Converium also made false and misleading statements in press releases. On March 18, 2002, Converium issued a press release reporting its financial results for the year ending December 31, 2001. Converium reported a net loss of \$367 million for fiscal 2001, which Converium downplayed as endemic of the industry-wide impact of the September 11 attacks and the Enron collapse – one-time catastrophic events. In the press release, Converium touted the material improvement in its adjusted non-life combined ratio, excluding the impact of September 11 and Enron:

Converium has a very solid balance sheet and is strongly capitalized at \$1.6 billion to benefit in the hardening markets. ... We substantially improved our underlying adjusted non-life combined ratio in 2001 by 7.8 points to 105.4%. ... Our objective for 2002 is to generate a non-life combined ratio of close to 100% and to target an ROE of more than 12.5%

47. On May 23, 2002, Converium filed its Form 20-F for the year ended December 31, 2001 (the “2001 20-F”) in which it repeated the results first announced in Converium’s March 18, 2002 press release, and represented that those results were prepared in accordance with GAAP. In addition, the 2001 20-F reported that, as of December 31, 2001, Converium had shareholders’ equity of \$1.6 billion.

48. The financial results reported in Converium’s March 18, 2002 press release and its 2001 20-F were materially false and misleading. Specifically, as a result of the fraudulent reinsurance transactions described above, Converium overstated its shareholders’ equity as of December 31, 2001 by \$103.1 million or 7.02%.

Converium Modifies the MDU Transaction to Deceive the FSA

49. After the IPO, Converium continued to use circular transactions to manipulate its financial statements. However, because of regulatory concerns in Europe, Converium engaged in further subterfuge to hide the circular nature of certain reinsurance transactions.

50. In January 2003, Converium submitted an application to license Converium Insurance Company UK (“Converium UK”) to write insurance within the United Kingdom. In April and May 2003, the Financial Services Authority (“FSA”) requested, among other things, that Converium provide additional information regarding: (a) the ownership structure of Inter-Ocean; and (b) whether any member of the Converium group provided retrocessional protection to Inter-Ocean related to the MDU business. Prior to the FSA seeking information about Converium’s transactions with Inter-Ocean, Converium had agreed with Company A that Company A would continue to participate in the MDU business for 2002 and 2003. Specifically, the parties had agreed that the transactions would utilize the same circular

structure that had been used prior to the IPO: Converium to Inter-Ocean to Company A and back to Converium.

51. On May 7, 2003, the CUO contacted a senior Company A executive by e-mail regarding the FSA's inquiry about whether Converium acts as a reinsurer for Inter-Ocean. The CUO wrote: "If we answer this question with yes this would have implications on the capital charges for [Converium] and some reputational issues we would like to avoid." Instead, the CUO asked whether, in order to avoid the issue of circularity, Company A would replace Converium on the back end of the transactions for years 2002 and 2003.

52. In order to provide written security that Company A would not incur losses under the restructured MDU transaction, Converium gave Company A a "put option," under which Company A could "put" the business back to Converium if the MDU business began to incur losses. Because the put option placed all risk of loss with Converium, the put option had the effect of recreating circularity. Although the put option was never exercised (because economic losses under the agreement never materialized), Converium, as had Zurich before it, continued to account improperly for the agreements as reinsurance.

53. On May 9, 2003, after Company A agreed to restructure the transaction, Converium responded to the FSA's request for information. The letter stated that Converium owns a minority interest (9.9%) of Inter-Ocean Holding, Ltd., which wholly owns Inter-Ocean Reinsurance Co. Ltd. Converium also stated that it did not provide any retrocession to Inter-Ocean concerning the MDU business.

Converium's Post-IPO Fraudulent Transactions

54. Following the IPO, Converium entered into two additional reinsurance transactions involving side agreements. The first transaction included an undisclosed "profit sharing agreement" that served as a vehicle to protect the reinsurer from any loss. The second transaction involved an undisclosed side agreement that also served to make the reinsurer whole. Converium improperly accounted for these transactions as reinsurance since these side agreements sought to reimburse the reinsurers for any losses and therefore negated any risk transfer.

The Transaction with Company C

55. Just prior to the IPO, Converium became concerned about the effect a catastrophic event loss might have on its balance sheet. As a result, in late 2001, Converium began soliciting quotes for excess of loss reinsurance from a number of reinsurers, including Company C, an unaffiliated reinsurer. However, before writing any reinsurance policy to Converium, Company C wanted comfort at the back end that it would not lose money on any reinsurance policy it might write, which ultimately led the parties to enter into an undisclosed side agreement that ensured Company C that it would not experience any losses. This side agreement negated Converium's transfer of any reinsurance risk to Company C in any of the contracts.

56. From early March 2002 through late fall 2003, Converium entered into three excess of loss reinsurance policies with Company C. In October 2001, prior to entering into any of the reinsurance agreements, Company C forwarded to the CUO a proposed agreement captioned “side-letter” that ensured that Company C would experience no losses on the reinsurance contracts. Specifically, the “side letter” obligated Converium “to specifically hold [Company C] harmless at the end in all respects under said reinsurance contracts. [Company C] acts purely as an enabler.”

57. On October 20, 2001, the CUO sent a revised “side letter” to the CEO, along with an e-mail written entirely in German – except for the word “FRAUD.” The English translation of the e-mail is as follows:

Enclosed is the draft side agreement as well as the [Company C] images. We must first work hard on these. Do you want to involve someone from legal? If yes, who? They have not liked these things and I fear that our actions would turn into a difficult situation (compliance etc). One alternative would be to handle it in the market ourselves and apply common sense. Actually, there should be no contractual document otherwise according to [Converium’s Senior Legal Counsel] the reinsurance agreement is void and all “FRAUD.” Let me know!

58. The next day, the CEO informed the CUO via e-mail that the side letter was “too restrictive” and that he “would prefer a letter of comfort and some additional protections built in for Company C in the contract which do not cause us problems from an accounting perspective.”

59. On December 7, 2001, Company C sent the CUO a “corrected side letter” that included a “pay-back clause.” The “pay-back clause” stated that, should Company C experience an economic loss on any of the three contracts, Converium would pay Company C additional premiums to make up for the loss. In addition, the “corrected side letter” did not alter that “Converium confirms specifically to hold [Company C] harmless at the end in all respects under said reinsurance contracts. Company C acts purely as an enabler.”

60. Converium improperly accounted for the transactions with Company C as reinsurance. As a result of the “side-letter,” Company C assumed no reinsurance risk, and Converium should have accounted for the transaction using deposit accounting. As a result, Converium, in its December 31, 2003 Form 20-F, overstated its pre-tax income for 2003 by \$21.67 million or 11.06%.

The Transactions with Company D

61. Zurich, and later Converium, maintained a book of business related to reinsurance for Guaranteed Minimum Death Benefit (“GMDB”) liabilities it maintained through treaties with third-party cedents. In early 2003, analysts criticized Converium for being under-reserved with respect to its risks related to its GMDB business and, in response, Converium sought reinsurance from an unaffiliated reinsurer (Company D) through two reinsurance agreements.

However, in order to protect Company D from suffering any combined losses under both reinsurance agreements, Converium and Company D entered a “Master Profit Sharing Agreement” that linked the two reinsurance agreements and negated Converium’s transfer of reinsurance risk to Company D.

62. In 2003, Converium and Company D entered into a GMDB Stop Loss Reinsurance Agreement (the “GMDB agreement”) effective October 1, 2003. The GMDB agreement covered Converium’s risks related to its GMDB business up to \$75 million in excess of ultimate net loss of \$93.2 million. In exchange, Company D received \$10 million in premium, and Converium was required to pay an additional premium of 85% of the risk between \$55 million and \$75 million. The net exposure to Company D in the transaction was \$50 million.

63. At the same time they entered into the GMDB agreement, Converium and Company D entered into a Property Catastrophe Excess of Loss Agreement that covered losses from European windstorms over a five year period (January 1, 2004 through December 31, 2008) (the “windstorm agreement”). In exchange, Company D received an \$11.2 million annual premium. Company D then retroceded the windstorm agreement to Inter-Ocean, which then retroceded the risks to Converium. After taking into account each leg of the transaction, Company D would receive an annual net premium of \$10.2 million or a total of \$51 million over the five years, which fully covered its net exposure under the GMDB agreement.

64. While there was real risk that Company D would incur losses under the GMDB agreement, there was a low probability that Company D would incur losses under the windstorm agreement. In order to protect Company D from suffering any combined losses under both the GMDB and windstorm transactions, Converium and Company D entered into a Master Profit Sharing Agreement (“the profit sharing agreement”) that linked the two reinsurance agreements. Taking the GMDB and windstorm agreements together, Company D would receive approximately \$75 million in premiums under both agreements, thereby pre-funding or reimbursing Company D for any losses it could have experienced under the GMDB Stop Loss agreement.

65. Converium improperly accounted for the Company D transaction as reinsurance. As a result of the profit sharing agreement linking the GMDB and windstorm agreements, Company D assumed no (or very little) reinsurance risk under both reinsurance agreements and should have accounted for the transactions using deposit accounting.

Converium’s Restatement

66. On November 4, 2005, following an internal review of certain finite insurance and reinsurance transactions, including the transactions described above, Converium announced that it planned to restate prior period financial statements. Converium’s closing stock price declined 4.7%, from \$4.91 per ADS on November 3, 2005 to \$4.68 per ADS on November 4, 2005.

67. On March 1, 2006, Converium restated its financial statements as of and for the years ended December 31, 1998 through December 31, 2004 and disclosed that it had improperly accounted for the Inter-Ocean, the Z-1 Facility, Company C and Company D transactions.

68. By accounting for these transactions as reinsurance, Converium overstated its pre-tax income and shareholder's equity. The financial statements for 2000 were included in Converium's F-1 filings made in connection with its IPO in December 2001. The financial statements for 2000 and 2001 were included in Converium's F-1 filings made in connection with a debt offering in December 2002. The financial statements for 2001 through 2004 were included in Converium's annual reports on Form 20-F filed with the Commission on May 23, 2002, April 18, 2003, April 9, 2004, and June 30, 2005, respectively.

VIOLATIONS

69. As a result of the conduct described above, Converium violated Section 17(a) of the Securities Act, which prohibits fraudulent conduct in the offer and sale of securities. Converium made material misrepresentations and omitted material facts in its (a) Registration Statement on Form F-1 and Prospectus for its December 2001 IPO; and (b) Registration Statement on Form F-1 and Prospectus for its December 2002 offering of guaranteed subordinated notes.

70. As a result of the conduct described above, Converium violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities. Converium improperly accounted for five finite reinsurance transactions and made material misrepresentations regarding its true financial condition in its (a) Registration Statement on Form F-1 and Prospectus for its December 2001 IPO; (b) March 18, 2002 press release; (c) 2001 Annual Report on Form 20-F; (d) 2002 Annual Report on Form 20-F; (e) Registration Statement on Form F-1 and Prospectus for its December 2002 offering of guaranteed subordinated notes; (f) 2003 Annual Report on Form 20-F; and (g) 2004 Annual Report on Form 20-F.

71. As a result of the conduct described above, Converium violated Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-1 thereunder, which require issuers to file true, accurate and complete periodic reports with the Commission. Converium filed false periodic reports with the Commission by misstating material facts concerning its financial performance due to Converium's improper accounting treatment of the finite transactions at issue.

72. As a result of the conduct described above, Converium violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets. Because Converium improperly accounted for and recorded the five finite reinsurance transactions at issue, its books, records and accounts did not, in reasonable detail, accurately reflect its transactions and dispositions of assets.

73. As a result of the conduct described above, Converium violated Section 13(b)(2)(B) of the Exchange Act, which require all reporting companies to maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and prohibit them from, directly or indirectly, falsifying or causing to be falsified, any book, record, or account. Converium's internal controls were not sufficient to prevent numerous false accounting entries related to the finite reinsurance transactions at issue to be recorded and to account for the transactions in conformity with generally accepted accounting principles.

Converium's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the relief agreed to in Respondent Converium's Offer.

Accordingly, it is hereby ORDERED that:

Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent Converium shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act and Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 10b-5, 12b-20, and 13a-1 thereunder.

By the Commission.

Florence E. Harmon
Acting Secretary