

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 59083 / December 11, 2008**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 2908 / December 11, 2008**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-13306**

**In the Matter of**  
  
**Zurich Financial Services**

**Respondent.**

**ORDER INSTITUTING CEASE-  
AND-DESIST PROCEEDINGS  
PURSUANT TO 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 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Zurich Financial Services (“Zurich” or “Respondent”).

**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 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 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order, as set forth below.

### III.

On the basis of this Order and Respondent's Offer, the Commission finds that:<sup>1</sup>

#### SUMMARY

1. Zurich caused a fraud by Converium Holding AG ("Converium") involving the use of finite reinsurance transactions to inflate improperly Converium's financial performance. Beginning in 1999, the management of Zurich's reinsurance group, which operated under the name Zurich Re, 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 Re management designed the transactions to make them appear to transfer risk to third-party reinsurers, when, in fact, no risk was transferred outside of Zurich-owned entities. For two of the transactions at issue, Zurich Re 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 Re ceded the risk to a third-party reinsurer but simultaneously entered into an undisclosed side agreement with the reinsurer pursuant to which Zurich Re 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-owned entities, 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 and capitalized Converium, which assumed the rights and obligations of Zurich's assumed reinsurance business. On December 11, 2001, Zurich spun off Converium in an IPO. At the conclusion of the IPO, the members of Zurich Re management responsible for the three reinsurance transactions described herein ceased to be affiliated with Zurich and continued as officers of Converium. As a result of the improper accounting treatment these reinsurance transactions received, the historical financial statements included in 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. Converium's misstatements relate to facts that were material to investors who purchased shares in the IPO. Through the IPO, which was the largest reinsurance

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<sup>1</sup> 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.

IPO in history, Zurich raised significantly more than it would have raised had Zurich and Converium not improperly inflated Converium's financial performance.

4. As a result of the foregoing conduct, Converium violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Zurich caused Converium's violation of Section 10(b) and Rule 10b-5.

### **RESPONDENT**

5. **Zurich** is a corporation organized under the laws of Switzerland with its principal place of business in Zurich, Switzerland. Historically, Zurich operated its reinsurance business under the brand name Zurich Re, which operated as a separate division within Zurich Insurance Company ("ZIC"), a wholly-owned subsidiary of Zurich, and through its North American subsidiary, Zurich Reinsurance (North America) Inc. ("Zurich Re North America"). Prior to Converium's IPO, Zurich restructured its reinsurance operations and transferred substantially all of the reinsurance business operated under Zurich Re to Converium. 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 Depository Shares ("ADSs"), representing its entire stake in Converium, for proceeds of approximately \$1.9 billion. Zurich's common stock trades on the SWX Swiss Exchange under the symbol ZURN and its ADSs trade on the Over-the-Counter Bulletin Board (OTCBB) and on the Pink Sheets under the symbol ZFSVY. Each Zurich ADS equals one-tenth of one share of Zurich common stock.

### **OTHER RELEVANT ENTITIES**

6. **Converium, now known as SCOR Holding (Switzerland) Ltd.**, is a corporation organized under the laws of Switzerland. 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. 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. In August 2007, SCOR SE, a French reinsurer acquired Converium.

7. **Inter-Ocean Reinsurance Company, Ltd.** ("Inter-Ocean") was, at all times relevant to this Order, a Bermuda corporation with its principal corporate offices in Bermuda, and 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**

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

9. 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...”<sup>2</sup> 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.”<sup>3</sup>

10. 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.

11. From 1999 through 2001, management of Zurich Re designed three reinsurance transactions that created the *appearance* of risk transfer in order to benefit from reinsurance accounting. These three transactions affected the financial statements included in Converium’s IPO prospectus. In two of the three transactions, Zurich Re purchased reinsurance from Inter-Ocean, which, in turn, ceded these liabilities to a Zurich entity (the “Inter-Ocean transactions”), in one transaction directly and in the other transaction indirectly through a third reinsurer. Zurich’s Re’s use of Inter-Ocean as an intermediary in the transaction helped obscure the transactions’ circular structure and the fact that Zurich Re had merely moved the risk from one Zurich Re entity to another. In the third transaction, Zurich Re entered into a reinsurance transaction for which the risk transfer was negated by an undisclosed and purportedly unrelated side agreement that protected the reinsurer against losses suffered under the reinsurance contract. Zurich Re improperly accounted for these transactions using reinsurance accounting.

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<sup>2</sup> FASB, Statement of Financial Accounting Standards No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* (December 1992), para. 8.

<sup>3</sup> FASB, Emerging Issues Task Force Topic D-34, *Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113* (July 22, 1993), Question 13.

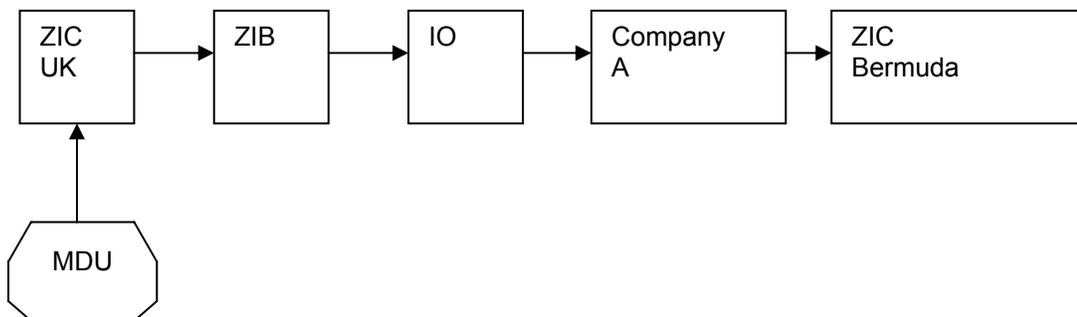
## The Circular Inter-Ocean Transactions

### The Medical Defence Union Transactions

12. In 2000, Zurich Re 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. Internally, Zurich Re 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, who was also a senior executive of Zurich, warned that, in obtaining the reinsurance, “we need to be conscious of the issue of circularity.”

13. Between April and December 2000, Zurich Re management attempted to negotiate reinsurance contracts for its MDU business that contained genuine risk transfer. However, by December 2, 2000, they had not found any reinsurer willing to take on such a contract. In December 2000, the CUO emailed the CEO and suggested that Zurich Re 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.”

14. Soon thereafter Zurich Re 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 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.



15. Although Zurich Re accounted for the transactions with Inter-Ocean and Company A as reinsurance, in reality, Zurich Re 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 Re and later Converium should not have accounted for the contract as reinsurance. As a result, and as reported in Converium’s December 2001 Form F1, Converium understated its pre-tax losses for the year ended December 31, 2000 by \$1.36 million.

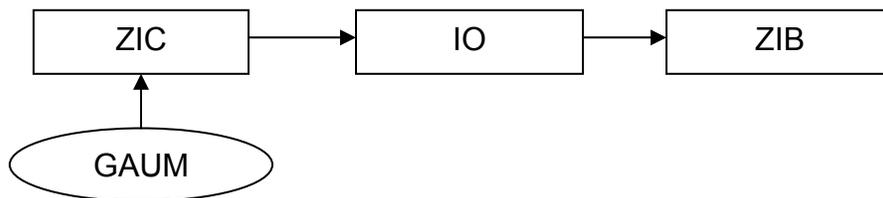
16. Zurich Re and Company A renewed the ZIB/Inter-Ocean agreement in 2001 to include MDU business written from January 1, 2001 through March 31, 2002. At the time the parties negotiated the agreement, Zurich had already announced its intention to spin-off its reinsurance operations. Due to the increased scrutiny of Zurich Re’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. As a result of the MDU transaction, in its December 2001 Form F-1, Converium understated its pre-tax losses for the six months ended June 30, 2001 by \$5.02 million.

### The GAUM Transaction

17. Just as it had done with MDU, in 2001, management of Zurich Re 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.

18. In July 2001, Zurich Re management estimated that losses under Zurich Re’s reinsurance agreement with GAUM would negatively affect 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 Re management 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...”

19. In 2001, Zurich Re 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.

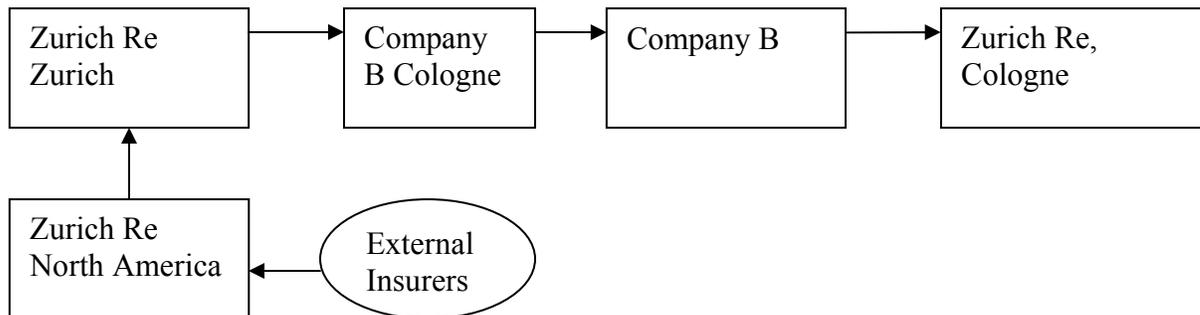


20. Similar to the MDU transaction, Zurich Re and later Converium improperly accounted for the GAUM contracts as reinsurance. Specifically, because Zurich reassumed 100% of the risk from Inter-Ocean, it should not have accounted for the contracts as reinsurance. Because Zurich Re, and later Converium, improperly accounted for the transaction as reinsurance, in Converium’s December 2001 Form F-1, Converium understated its pre-tax loss for the six-month period ended June 30, 2001 by \$2.44 million.

**The Z-1 Facility and Undisclosed Side Agreement**

21. In addition to the circular Inter-Ocean transactions, Zurich Re management entered into a reinsurance agreement -- known as the Z-1 Facility -- that appeared to transfer risk, but in fact did not, due to a side agreement that left the risk with Zurich Re.

22. In 1999, Zurich Re established the Z-1 Facility with a Barbados insurance company (Company B). 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 Zurich Re North America, in which Zurich Re North America had reinsured losses of unaffiliated insurers. Zurich Re North America retroceded 100% of its obligations and premiums to Zurich Re Zurich, a division of ZIC. Zurich Re Zurich 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**

23. 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 Re management 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.

24. The Company B executive insisted on security beyond the CEO's oral commitment. At the CEO's instruction, a Zurich Re North America 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 Re management and later Convergium 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."

25. In the fall of 1999, prior to finalizing the terms of Cover B, the Zurich Re North America 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 the agreement.

26. In December 2000, Cover B was renewed, with the CEO again signing the agreement. 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**

27. In September 2000, Zurich Re management became concerned about the financial statement impact of Zurich Re's exposure to losses arising out of Zurich Re's involvement in the failed Unicover Occupational Accident Reinsurance Pool ("Unicover Pool"). To address these concerns, Zurich Re management approached Company B about including Zurich's Unicover Pool exposure under the Z-1 Facility. Specifically, Zurich Re 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.

28. 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 Re 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.

29. 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.

### **Post-IPO Conduct of Converium**

30. Converium was prepared to honor Zurich Re'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**

31. Consistent with these representations, Converium used 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.

32. Second, in early 2000, before the IPO, 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, after the IPO, when losses under the Z-1 Facility emerged, 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.

33. 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.

34. 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**

35. 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**

36. 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.

37. The Registration Statement and Prospectus filed by Converium in connection with the IPO, which became effective on December 11, 2001, was derived from data from the Zurich subsidiaries combined to form Converium and 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.

38. Accordingly, 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 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. Converium also 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.

39. 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.

40. 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.

41. 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.

42. 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.

43. Had Zurich and 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.

### **Violation**

44. 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.

45. As a result of the conduct described above, Zurich caused Converium’s violation of 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. Among other things, Zurich entered into finite reinsurance transactions described above for the purpose of improperly inflating its financial performance and improperly using reinsurance accounting rules to account for the transactions, with the knowledge that such accounting was improper.

**Zurich'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 Zurich's Offer.

Accordingly, it is hereby ORDERED that:

Pursuant to Section 21C of the Exchange Act, Respondent Zurich cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

By the Commission.

Florence E. Harmon  
Acting Secretary