

2. The transaction involved two separate but related contracts. First, RenRe purported to assign at a discount certain assets (\$50 million of recoverables due to RenRe under certain industry loss warranty contracts) to Inter-Ocean Reinsurance Company, Ltd. in exchange for \$30 million in cash, for a net transfer to Inter-Ocean of \$20 million. RenRe recorded income of \$30 million upon executing the assignment agreement. The remaining \$20 million of its \$50 million assignment became part of a “bank” that RenRe planned to use in later periods to bolster income.

3. Second, RenRe entered into a purported reinsurance agreement with Inter-Ocean that was just a vehicle to refund to RenRe the \$20 million transferred under the assignment agreement plus the purported insurance premium paid under the reinsurance agreement. The reinsurance agreement purported to cover losses in excess of certain specified amounts, conditioned upon the occurrence of a particular kind of loss event. For this purported reinsurance coverage, RenRe paid Inter-Ocean a \$7.3 million premium.

4. This reinsurance agreement was a complete sham. Not only was RenRe certain to meet the conditions for coverage; it also would receive back all of the money paid to Inter-Ocean under the two agreements plus investment income earned on the money in the interim, less certain transactional fees and costs. In other words, the two parties consented to a round trip of cash. RenRe’s claim under the reinsurance agreement would be paid with its own money. Inter-Ocean agreed to hold the reinsurance premium and the net amount of recoverables transferred under the assignment agreement (less \$1.1 million in fees and costs) in trust for RenRe until RenRe made a claim, and RenRe’s recovery was limited to the amount held in the trust. Thus, the assignment agreement was not a true assignment but at best a temporary deposit, and the

reinsurance agreement transferred no risk to Inter-Ocean because RenRe paid Inter-Ocean the entire amount it could recover under the reinsurance agreement.

5. The true purpose of the deal, as RenRe understood and intended, was to defer recognizing approximately \$26 million in income until RenRe made a claim under the reinsurance agreement. Through this fraudulent device, RenRe materially understated income in 2001 and materially overstated income in 2002, when it made a claim under the reinsurance agreement and received as apparent reinsurance proceeds the funds it had paid to Inter-Ocean and that Inter-Ocean held in the trust for RenRe's benefit. In the third quarter of 2002, for example, RenRe overstated net income by nearly 38% as a result of the sham transaction.

6. To mislead RenRe's auditors about the transaction, RenRe misrepresented or omitted key facts to the auditors, including the deal's lack of risk transfer and its income smoothing purpose.

7. RenRe employed a scheme that was designed to have a material impact in future periods and that operated, or would have operated, as a fraud.

8. In connection with the offer and sale of its securities, RenRe made material misrepresentations and omissions of fact concerning its financial statements.

VIOLATIONS

9. By virtue of the foregoing conduct, RenRe, directly or indirectly, singly or in concert, has engaged in acts, practices and courses of business that constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77q(a)], Sections 10(b), 13(a) and 13(b)(2) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C.

§§ 78j(b), 78m(a) and 78(m)(b)(2)] and Rules 10b-5(a), (b) and (c), 12b-20, 13a-1, 13a-13, and 13b2-1 [17 C.F.R. §§ 240.10b-5(a), (b) and (c), 240.12b-20, 13a-1, 13a-13, and 13b2-1].

JURISDICTION AND VENUE

10. The Commission brings this action pursuant to the authority conferred upon it by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)] seeking to restrain and permanently enjoin RenRe from engaging in the acts, practices and courses of business alleged herein. The Commission also seeks a final judgment:

- a. ordering RenRe to disgorge any ill-gotten gains and to pay prejudgment interest thereon; and
- b. ordering RenRe to pay civil money penalties pursuant to Section 20(c) of the Securities Act [15 U.S.C. § 77t(c)] and Section 21(d)(3)(A) of the Exchange Act [15 U.S.C. § 78u(d)(3)(A)].

11. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e) and 78aa].

12. RenRe, directly or indirectly, singly or in concert, has made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices and courses of business alleged herein. Certain of these transactions, acts, practices and courses of business occurred in the Southern District of New York, including, among other things, the wire transfer of at least \$50 million in connection with the sham transaction through a bank located in the Southern District of New York.

THE DEFENDANT

13. **RenRe** is a Bermuda corporation with its principal corporate office in Bermuda. Formed in 1993, it is a holding company that, through its subsidiaries, provides property catastrophe reinsurance, along with selected other insurance and reinsurance. RenRe's securities are registered pursuant to Section 12(b) of the Exchange Act and are listed on the New York Stock Exchange. Renaissance is one of RenRe's principal insurance subsidiaries.

OTHER RELEVANT ENTITY

14. **Inter-Ocean** is, or was from at least 2000 through 2003, a Bermuda corporation with its principal corporate offices in Bermuda. Inter-Ocean is, or was from at least 2000 through 2003, a wholly-owned subsidiary of Inter-Ocean Holdings, Inc., which was formed in 1990 as a joint venture of ten reinsurers. In 1999, RenRe acquired a 10% interest in Inter-Ocean effective at the end of that year. The other shareholders of Inter-Ocean Holdings are, or were from at least 2000 through 2003, also insurance and reinsurance companies, including American Reinsurance Company ("AmRe").

FACTS

15. RenRe, through its then-senior officers, deliberately designed the Inter-Ocean transaction as a fraudulent device to store excess earnings so that RenRe could draw on them if the Company incurred large insurance losses in the future. This scheme was intended to have a material impact during a future period when RenRe needed an earnings boost.

A. RenRe's Restatement Announcement

16. On February 22, 2005, RenRe issued a press release announcing that it would restate its financial results for its fiscal years ended December 31, 2001, December 31, 2002, and December 31, 2003. The press release disclosed that the effect of the relevant portion of the

restatement was to increase net income by \$26.4 million in 2001, decrease net income by \$25.0 million in 2002, and decrease net income by \$1.4 million in 2003.

17. The press release did not disclose that RenRe had entered into a sham transaction or that the restatement effectively treated the transaction as if it had never occurred.

18. On March 31, 2005, RenRe filed its Form 10-K for the year ended December 31, 2004, which contained restated financial statements for 2001, 2002, and 2003. The 10-K portrayed the restatement as the result of an accounting error concerning the “timing of the recognition of Inter-Ocean reinsurance recoverables.” It also noted the Company’s conclusion that the Inter-Ocean contracts should have been treated as a single transaction – as if the transaction was bona fide – and it purported to summarize the defect by saying that the transaction lacked the necessary risk transfer to be accounted for as reinsurance.

19. In fact, the transaction was a sham that should not have been accounted for at all, as the restatement demonstrates. However, like the prior press release, the Form 10-K’s narrative disclosure did not acknowledge the sham nature of the transaction or that the Company restated its accounting by effectively treating the transaction as if it had never occurred.

B. Background: RenRe’s Earnings and Reinsurance Situation

20. At the time of the Inter-Ocean deal, RenRe’s main business was property catastrophe reinsurance – i.e., providing reinsurance to insurers that might suffer losses due to catastrophes like hurricanes, tornados, and earthquakes. To manage its risk, RenRe obtained reinsurance from other reinsurers to protect itself if it had to pay out claims for large losses. In at least 1998 and 1999, RenRe entered into industry loss warranty contracts (“ILWs”) – a type of reinsurance – with other insurers and reinsurers as counterparties. These contracts entitled

RenRe to recover from the ILW counterparties for insurance claims paid by RenRe to its insureds if certain industry-wide insurance losses exceeded contractually designated levels. For example, RenRe could recover under one of the ILW contracts if industry-wide earthquake losses in the United States for a one-year period beginning in March 1999 exceeded \$15 billion.

21. It became clear in 2000 or early 2001 that the ILW counterparties had not understood the risks underlying these contracts as well as RenRe had and that the ILW counterparties had therefore under-priced the contracts, to RenRe's benefit. The price RenRe would have to pay to enter into future ILWs thus rose significantly, making these contracts less attractive economically. As a result, RenRe's highest officials began thinking about ways to protect future earnings in case RenRe had to pay claims for major losses that it could not adequately reinsure.

22. At the same time, RenRe was flush with earnings. In November 2000, two senior executives of RenRe recognized that 2000 would be a financially strong year for the Company. In e-mail correspondence, they discussed a project called the "4th quarter challenge" and "project Christmas present" and considered structuring a transaction that would help some other company meet earnings expectations for the fourth quarter of 2000 while possibly helping RenRe defer earnings.

23. When one senior official joined Renaissance in November 2000 with responsibility for underwriting reinsurance, he began working on "project Christmas present" almost immediately. By the end of 2000, however, no deal had been consummated and RenRe's earnings per share in 2000 were 31% higher than in the previous year. "Project Christmas present" was a precursor to the Inter-Ocean transaction.

24. In early 2001, it appeared that RenRe would again have high earnings for the first quarter. At some point during the first quarter, the Company learned that it was likely to obtain substantial payments under its 1999 ILWs largely due to industry-wide losses sustained from a severe European windstorm and an Asian typhoon. On January 12, 2001, RenRe began sending preliminary notices to its reinsurers stating that it was likely to claim recoveries under the ILWs. The recoveries became quantifiable in March 2001 when an industry report, contractually used to determine recoveries under the ILWs, tabulated industry-wide loss figures for 1999. The Company knew that it was entitled to approximately \$55 million under the 1999 ILWs and understood that it would recover approximately \$50 million of that amount.

25. Under generally accepted accounting principles (“GAAP”), RenRe should have recognized the ILW recoverables as income in the first quarter of 2001, when the Company became aware that it was entitled to an amount that was probable and reasonably estimable. To the extent that a small portion of the actual recovery was doubtful because of credit risk (i.e., the risk of nonpayment by the counterparties under the ILWs), RenRe should have recorded an appropriate allowance, supported by a valuation analysis. No such valuation analysis was performed, but the likelihood of collection was high because the Company had already received \$23 million of the recoverables by March 31, 2001. By April 23, 2001, before RenRe had closed its first quarter books, the Company had received \$42.1 million of the recoverables, or about 76% of the expected total. Thus, in the first quarter of 2001 the Company knew that the recoverables would have a substantial positive impact on its earnings.

26. RenRe did not recognize \$50 million of income from the ILWs in the first quarter of 2001. Instead, the Company sought to defer approximately \$26 million of income to protect

itself from future insurance losses, particularly because the Company expected not to have the benefit of adequate ILWs in the future.

27. The then-CEO initiated this project and was involved from the beginning. In January 2001, he sent an e-mail entitled “leveling contract.” In this e-mail, he asked senior officers to try to “structur[e] a ceded contract that allows us to ‘put away’ \$25 million.” This e-mail was the impetus for the Inter-Ocean transaction.

28. One senior officer promptly began to develop proposals “to smooth [] earnings,” according to an e-mail he sent, and kept other senior officers updated on his progress. Eventually, he negotiated a deal with Inter-Ocean and AmRe, which managed Inter-Ocean through a subsidiary. In mid-March 2001, three RenRe officials initially met with three Inter-Ocean employees, who also had ties to AmRe. They discussed the proposed structure for the transaction.

29. According to e-mails from April 2001, a senior RenRe officer also informed AmRe that RenRe’s purpose for proposing the transaction was to defer earnings. RenRe asked AmRe not to “widely broadcast” its proposal “given the nature of the transaction.”

30. One of RenRe’s senior officers played a significant role in drafting both the assignment agreement and the reinsurance agreement. He ultimately signed the reinsurance agreement with Inter-Ocean on RenRe’s behalf, while another senior officer signed the assignment agreement.

31. RenRe initially wanted to have different counterparties on each agreement. The Company originally proposed entering into the assignment agreement with Inter-Ocean and the reinsurance agreement with AmRe, in part to mislead RenRe’s auditors into thinking that the

agreements were unrelated. Ultimately, RenRe entered into both parts of the transaction with Inter-Ocean, which then ceded its obligations under the reinsurance portion of the transaction to AmRe through a separate retrocession agreement. A retrocession agreement is one in which a reinsurer cedes its obligations under an insurance policy or agreement to another reinsurer.

32. The Inter-Ocean transaction, including its purpose of deferring earnings and its basic structure, was discussed at several senior staff meetings attended by RenRe's highest officials.

C. The Inter-Ocean Transaction

33. Although it was not obvious from the documentation itself, the assignment and the reinsurance agreement operated in tandem, as the parties understood and intended. In the assignment agreement, RenRe purported to transfer \$50 million of the recoverables under the ILWs to Inter-Ocean in exchange for a payment of \$30 million, while the purported reinsurance agreement provided a mechanism for RenRe to recover from Inter-Ocean at a later date the remaining \$20 million (plus \$7.3 million it paid Inter-Ocean as a supposed premium, less certain fees and costs). The two agreements in reality provided no economic benefit to either party other than a substantial fee – not expressly reflected in the contracts – that RenRe paid Inter-Ocean for its role in the transaction.

1. The Assignment Agreement

34. On April 23, 2001, RenRe entered into an assignment agreement with Inter-Ocean. Under its terms, RenRe appeared to assign \$50 million of the recoverables under the 1999 ILWs to Inter-Ocean in return for a payment of \$30 million. Thus, the consideration paid by Inter-Ocean appeared to be discounted to reflect nonpayment risk. As a result of the

transaction, RenRe recorded smaller earnings than it should have, thereby reducing RenRe's net income by \$20 million.

35. The assignment agreement was a sham, as RenRe understood and intended. The apparent discount for nonpayment simply cloaked what was actually a transfer of \$20 million in earnings from RenRe to Inter-Ocean. According to an internal AmRe e-mail dated April 4, 2001, RenRe had assured AmRe that "[t]he 50 M[illion] recoverable ... will essentially be guaranteed" and that the recoverables would "be collected and paid to [Inter-Ocean] by 7/31/2001." Indeed, by April 23, 2001, the date the assignment agreement was executed, RenRe had already received \$42.1 million of the recoverables it was supposedly assigning to Inter-Ocean for \$30 million.

36. Inter-Ocean assumed no non-payment risk because the assignment agreement expressly permitted RenRe or Inter-Ocean to terminate the agreement at any time prior to August 1, 2001. Thus, if RenRe did not collect the entire \$50 million of the recoverables by July 31, 2001, Inter-Ocean could terminate the agreement, which would otherwise terminate in accordance with its terms on July 31, 2003.

37. Although RenRe ultimately collected all \$50 million of the assigned recoverables and the assignment agreement was not terminated, the termination provision demonstrates the assignment's lack of economic substance. The assignment agreement's only purpose was to transfer \$20 million of earnings from RenRe to Inter-Ocean with no corresponding transfer of nonpayment risk to Inter-Ocean before August 1, 2001.

38. RenRe collected all \$50 million of the assigned recoverables by July 5, 2001. On July 31, 2001, RenRe transferred \$50 million to Inter-Ocean by wire through a bank located in

the Southern District of New York.

2. **The Reinsurance Agreement**

39. On July 31, 2001, RenRe entered into a purported reinsurance agreement with Inter-Ocean with a coverage period that began seven months earlier, on January 1, 2001. This agreement also was a sham, as RenRe understood and intended. There was no risk to either RenRe or Inter-Ocean in the transaction because: (a) RenRe's full recovery was assured, as the coverage triggers in the agreement were illusory and under RenRe's control; and (b) Inter-Ocean assumed no risk under the agreement, because the amount of any recovery was limited to whatever amount Inter-Ocean held in a trust for RenRe's benefit – a trust that was funded with RenRe's money.

a. *There was no risk to RenRe because the coverage triggers were illusory.*

40. The reinsurance agreement appears to provide coverage up to a limit of \$45 million for certain of RenRe's losses if two requirements – or triggers – were met. First, the reinsurance agreement specified certain retention limits. RenRe could make a claim under the reinsurance agreement if it suffered losses – sums paid by RenRe or reserved by RenRe to be paid to companies it reinsured, among other things – greater than \$250 million during the three-year term of the agreement or \$60 million in any quarter during the term of the agreement. Second, the reinsurance agreement required the occurrence of an industry-wide “1 in 10 loss event,” as defined solely by RenRe based on a proprietary risk modeling system, during the term of the agreement.

41. In reality, RenRe designed both of these triggers to make the agreement look like standard risk-transferring reinsurance even though RenRe's highest officials knew that RenRe would meet these requirements and receive a full recovery under the contract.

42. First, RenRe controlled its own ability to meet the retention limits. The limits were set based on the Company's past losses and premiums so that the limits would be met but would appear large to the Company's auditors. To assure that the Company would hit the trigger, RenRe defined covered "losses" very broadly and did not restrict the definition to losses actually paid by RenRe. Thus, the retention limits were completely within RenRe's control.

43. Second, RenRe controlled whether the "1 in 10 loss event" trigger was met because, according to the agreement's express terms, the "1 in 10 loss event" was to be "defined solely" by RenRe. A "1 in 10 loss event" was simply any loss whose likelihood of occurrence RenRe determined was once every ten years. By manipulating geographic parameters, RenRe could construe virtually any loss event during the agreement's term as a "1 in 10 loss event." For example, a hurricane in the United States resulting in a large insurance loss might have an occurrence likelihood of one in five years, but if RenRe simply reduced the geographic area to the southeastern United States, the occurrence likelihood of the same hurricane could be one chance in ten years.

44. Moreover, Inter-Ocean would not have access to RenRe's proprietary system to dispute any such characterization. Thus, just like the retention limits, the "1 in 10 loss event" trigger was contrived and completely within RenRe's control. The reinsurance agreement removed all doubt that RenRe would be able to meet both triggers and make a claim under the contract.

