

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.

