



September 30, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803
comments@pcaobus.org

Re: Request for Public Comment: Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards, PCAOB Rulemaking Docket No. 34

Dear Office of the Secretary:

Endurance Specialty Holdings Ltd. ("Endurance") appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board ("PCAOB") on the Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards released June 21, 2011 ("Concept Release").

Endurance is a global specialty provider of property and casualty insurance and reinsurance. Through its operating subsidiaries, Endurance writes property, casualty, healthcare liability, agriculture and professional lines of insurance and property, catastrophe, casualty, aerospace and marine, and surety and other specialty lines of reinsurance. We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Our gross premiums written were \$2.1 billion for the year ended December 31, 2010 and our shareholders' equity was \$2.8 billion at December 31, 2010.

Endurance supports the PCAOB's efforts to improve the current auditor reporting model. However, we have some concerns regarding the alternatives discussed in the Concept Release. Our views on each of the alternatives presented in the Concept Release are described below. We believe that the Auditor's Discussion and Analysis ("AD&A") and Auditor Assurance on Other Information Outside the Financial Statements alternatives would be costly to implement and the resulting benefits to investors would not justify the cost. We also believe that these alternatives may result in unintended consequences, as we believe management will change their accounting policies and disclosures to avoid investor confusion and reduce the information they disclose to ensure the disclosures are auditable.

Changes to the Auditor's Reporting Model

Endurance supports retaining the current "pass/fail" auditor's report model. This model is clear, consistent and comparable among all audited companies, and is therefore useful to investors. However, we also support expanding the auditor's report to incorporate additional information that would be useful for investors. We believe that any additional information regarding the company's financial statements should come from management, not the auditors. The financial statements are the responsibility of management,

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not the auditors, and therefore it is inappropriate for the auditor to provide information regarding the financial statements. Management is in the best position to comment on the business and to provide any additional information regarding the financial statements. Although the auditors have a detailed understanding of the business, they are still a third party and their views of the business may not be entirely complete.

Auditor's Discussion and Analysis

Overall, Endurance believes that in practice, an AD&A would not provide useful information to investors. Instead, the AD&A would likely cause confusion in the investor community. This confusion could come from a number of different areas. If the auditor provides information that management has not disclosed, this could cause confusion for users of the financial statements, as clear, consistent information is not being provided. If management's discussion and analysis ("MD&A") and the AD&A are not consistent, investors may not know which version is correct. Requiring the auditors to discuss alternative accounting policies, practices and disclosures that the company could have chosen could also create confusion, as investors may be unsure as to which alternative is correct. If management chose one acceptable alternative and the auditors indicated a preference for another acceptable alternative, investors may question whether the financial statements (and the auditor's opinion on those financial statements) are accurate. Even knowledgeable, experienced investors may question management's choices in this situation. Even worse, we believe that in practice companies would attempt to reduce the number of differences between the MD&A and AD&A by adopting the auditor's preferred accounting policies, practices and disclosures, including those related to significant judgments and estimates, rather than having a disconnect between the MD&A and the AD&A. This would reduce the quality of the financial statements, as management should be making appropriate accounting policy and disclosure decisions based on their knowledge of the business, not based on auditor preferences.

We believe that auditors discussing "close calls" in their audit report would not be appropriate. Close calls are highly subjective, and what is considered a close call by the auditor may not be considered a close call by management. Also, due to the subjective nature of a close call, there is the potential for variability between auditors on what is considered a close call, which would reduce the comparability of this disclosure among different companies. Discussing close calls in the auditor's report would also be confusing for investors. If a contentious issue is being highlighted in the report, investors would wonder if it was resolved to the satisfaction of both parties or not. If it was resolved, why would it be highlighted in the auditor's report? Investors may also question the auditor's opinion in light of the issue – why would the opinion be unqualified when this issue was identified? Also, investors may not understand why the issue was highlighted or why it is being discussed in the auditor's report, and may infer that the financial statements are correct except for this issue. Other investors may wonder whether the final resolution was one that all parties agreed to, or if one party was forced to concede by the other.

Unfortunately, another unintended consequence of an AD&A may be less free-flowing discussions between management and the auditor, or less trust and more tension in the relationship with the auditor, as companies would be less willing to disclose sensitive or confidential information, fearing it will end up disclosed in the AD&A.

Overall, Endurance does not believe that the AD&A alternative suggested in the Concept Release would provide useful information to investors. Rather than assisting investors, the AD&A would in fact result in



more confusion in the investor community. The AD&A is also one of the more extensive alternatives suggested in the Concept Release and would require a significant amount of effort by the audit firms to produce the AD&A and also to gather, audit and document the information required to support it. This would in turn result in increased audit costs for issuers. We believe that the additional cost of the AD&A would outweigh any benefits, therefore we do not support this alternative.

Required and Expanded Use of Emphasis Paragraphs

Endurance generally supports this alternative. We would encourage expanded use of the emphasis paragraphs, although we would like to see these kept optional rather than required. Some very small, simple audits may not have any significant items to highlight, and requiring the auditors to include insignificant details of the audit in emphasis paragraphs in the audit report would not be useful for users. We believe that the use of the emphasis paragraphs should be limited to truly significant issues or areas of judgment. Otherwise, overuse or frivolous use would dilute the importance of discussing a significant item. For example, if auditors were required to discuss the revenue recognition policies of all companies (as revenue is generally a significant audit area), those companies with truly significant revenue recognition or estimation issues would not stand out compared to those companies with standard revenue recognition policies. We agree that each of the issues discussed in the emphasis paragraphs should be referenced to the financial statements where these significant items are discussed by management.

We believe that emphasis paragraphs could lead to investor confusion if certain areas are discussed by the auditors in the auditor's report but not by management in the financial statements. This should be rare if the emphasis paragraphs are optional rather than required.

The language in the emphasis paragraphs is likely to become boilerplate over time, as this would increase consistency and comparability among companies. We believe it would be difficult to ensure these emphasis paragraphs are consistent among various companies without standard language.

Auditor Assurance on Other Information Outside the Financial Statements

Endurance believes that requiring the auditor to provide assurance on information outside of the financial statements will result in management disclosing less information to investors. We believe that management will scale back their disclosures in the MD&A to verifiable information, to ensure they can be audited by the auditors. Therefore, this alternative would result in less useful information for investors, as management would likely remove most forward-looking information and other important details which are less readily auditable. This is the opposite of the stated purpose of this project, which is to enhance transparency and relevance of the information provided to investors.

We are also concerned that this alternative would cause a significant increase in scope for the auditors. We believe that the auditors will need to spend a significant amount of time to audit the MD&A, and we are concerned that due to already tight reporting deadlines, this may cause a significant time crunch at the end of the reporting cycle. This increase in scope will also result in a corresponding increase in cost for issuers. As we do not believe that this alternative would result in better information for investors, the benefit does not exceed the cost and therefore we do not recommend this alternative.



Clarification of the Standard Auditor's Report

Endurance supports each of the clarifications proposed in the Concept Release. We believe that these additions will provide additional valuable information to investors. However, as these items are not directly related to the opinion on the financial statements, we propose that this additional information is provided in a separate letter from the auditors to the readers of the financial statements, which issuers would then attach as an appendix to their filing. As these additions will not require additional work by the audit firms, nor by financial statement preparers, this alternative will provide additional information for little additional cost to auditors and issuers.

Conclusion

Endurance generally supports the Expanded Use of Emphasis Paragraphs and the Clarification of the Standard Auditor's Report alternatives discussed in the Concept Release. We believe that the AD&A and Auditor Assurance on Other Information Outside the Financial Statements alternatives would be costly to implement and benefits, if any, to investors related to the additional disclosures would not justify the cost. Also, these alternatives would have unintended consequences such as investor confusion and management disclosing less information to investors to ensure it is auditable. We therefore do not support the AD&A and Auditor Assurance on Other Information Outside the Financial Statements alternatives.

Thank you for consideration of our comments.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Michael J. McGuire".

Michael J. McGuire
Chief Financial Officer
Endurance Specialty Holdings Ltd.