



December 14, 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 Auditor Independence and Audit Firm Rotation, PCAOB Rulemaking Docket No. 37

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 Auditor Independence and Audit Firm Rotation released August 16, 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 enhance auditor independence, objectivity and professional skepticism. However, we do not believe that mandatory audit firm rotation would enhance auditors' independence, objectivity and professional skepticism and therefore reduce audit failures. We believe that there is insufficient evidence to support mandatory audit firm rotation, that costs of mandatory rotation will exceed the benefits, and that multinational companies in specialized industries will have difficulty selecting an alternative appropriate auditor. We also believe that our Audit Committee is in the best position to evaluate whether our auditor needs to be rotated, and that there are procedures already in place to support auditor independence. We support the targeted rotation alternative to mandatory audit firm rotation discussed in the Concept Release. However, we do not support the options proposed in the Concept Release involving mandatory retendering and joint audits.

Evidence to Support Mandatory Audit Firm Rotation?

As discussed in the Concept Release, there is currently no reliable evidence that links audit firm tenure to audit failures or lack of auditor independence, objectivity and professional skepticism. There has also not been conclusive evidence that mandatory audit firm rotation will result in improved audit quality. Quite the opposite, studies in countries where mandatory audit firm rotation is required (such as Italy) suggest that mandatory audit firm rotation may in fact adversely affect audit quality. We believe that additional research

Endurance Specialty Holdings Ltd.
Wellesley House
90 Pitts Bay Road
Pembroke HM 08, Bermuda

www.endurance.bm



needs to be completed to determine the causes of audit failures before significant changes in practice are implemented which will increase costs and cause disruptions for both companies and their auditors. We also suggest that the PCAOB examine other jurisdictions where mandatory audit firm rotation has already been implemented and evaluate whether this has increased auditor skepticism and reduced audit failures in these jurisdictions.

Costs vs. Benefits of Mandatory Audit Firm Rotation

We believe that mandatory audit firm rotation would considerably increase the cost of an audit, for both the audit firm and the company. This is due to the increased time required by the audit firm to gain the familiarity with a company and its operations that is necessary for an effective audit when performing the audit for the first time. In addition, efficiencies developed over time by the preceding auditor are lost upon rotation, thereby increasing the costs of maintaining the same level of audit service. Taking into account the fact that audits are becoming more complex due to the current business environment, increased regulations, and changing accounting standards, auditors may need more than a year to get fully "up to speed" on a new client. A first time audit will also require a significant amount of company time. The company will incur an increase in disruption, expense and time due to the need to educate the new audit firm about the business and operations. Company management will also spend a significant amount of time and expense on auditor selection. This time would be better used to focus on business issues, financial reporting and governance. It has been estimated that first year audit costs increase by more than 20%. In addition to the cost of rotation, empirical studies show that there is also an increased likelihood of fraud in the early years of an auditor-client relationship. The auditor has a decreased ability to detect fraud if they are not familiar with the company. We believe that this increase in cost due to the "learning curve" and decrease in quality would offset any benefits realized from increased auditor independence, objectivity and professional skepticism.

At Endurance, we find that the quality of our financial statement audit has increased over time. Our auditors have a deep knowledge of our business and our ten year relationship with our auditors has been beneficial to the company and our shareholders.

Multinational Companies in Specialized Industries

Multinational companies in specialized industries, such as Endurance, face particular challenges with mandatory audit firm rotation. Our auditor choice is limited to a small number of audit firms due to our specific requirements. Endurance has operations in a number of countries around the world, including Bermuda, the United States of America, the United Kingdom, Singapore and Switzerland. To ensure we have an effective and efficient audit, we need to choose a firm with operations in each of the countries in which we operate. This reduces the number of available firms to choose from. We also operate in a very specialized industry, and therefore require an auditor with deep knowledge of the insurance and reinsurance industry. To find an audit firm that is both multinational and insurance specialized is difficult in itself, however we also require a firm with enough capacity to complete a large public company audit with a tight reporting deadline. We also engage audit firms to perform non-audit services, and therefore these audit firms would be unable to tender for our audit, which would further reduce the available audit firms we could choose from. Based on the above restrictions, if we are forced to rotate auditors on a periodic basis, we may be unable to engage a suitable audit firm, which would not be in our shareholders' best interests.



Audit Committee Effectiveness

We believe that our Audit Committee is in the best position to evaluate whether the auditor is appropriately independent, objective and performs their audit with an appropriate level of professional skepticism. We believe that they have chosen the most appropriate auditor for our company. If they were forced to choose another auditor due to mandatory audit firm rotation, this may not be in the best interest for our company or our shareholders, and this rotation requirement would reduce the audit committee's ability to effectively oversee the financial reporting and audit process at Endurance.

Existing Procedures

We believe that there are practices already in place to support auditor independence, objectivity and professional skepticism. These practices provide the benefits the PCAOB is seeking without the downsides of mandatory audit firm rotation. The existing audit partner rotation rules and periodic personnel turnover at both the audit firm and company introduces new ideas and keeps the relationship between the audit firm and the company objective. Audit firm requirements to involve subject matter experts at their national offices mitigate pressure from management when faced with a technical or subjective accounting issue.

Alternatives to Mandatory Audit Firm Rotation

Although we do not support mandatory audit firm rotation, we support the PCAOB's efforts to enhance auditor independence, objectivity and professional skepticism. We therefore have evaluated the alternatives to mandatory rotation and believe that the best way to address independence, objectivity and professional skepticism concerns is through the PCAOB inspection program. We support a targeted approach, whereby the PCAOB would suggest rotation of an audit firm if there is evidence of insufficient independence, objectivity and professional skepticism.

We do not support the mandatory retendering and mandatory joint audits options discussed in the Concept Release. Both of these options are costly and disruptive to the audit process. In addition, these options reduce the ability of the Company's Audit Committee to effectively manage and control the selection of auditors that best meet the Company's needs. We believe that the selection of auditors is a clear responsibility of the Board of Directors and any measure that reduces the Audit Committee's ability to control or direct auditor selection would be detrimental to investors. Finally, we do not believe that evidence exists to support that these approaches enhance auditor independence, objectivity and professional skepticism.



Conclusion

Endurance supports the PCAOB's efforts to enhance auditor independence, objectivity and professional skepticism. As discussed above, we believe that mandatory audit firm rotation would not enhance auditors' independence, objectivity and professional skepticism and therefore reduce audit failures. Due to the reasons described above, we do not support the PCAOB's suggestion of mandatory audit firm rotation.

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.