



9.November.2005

Paul Beswick
Practice Fellow
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116

RE: FSP on Life Settlements

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Dear Mr. Beswick:

At the insurance roundtable Leslie Seidman (FASB) invited interested parties to write to the board to express any concerns with the board's decision regarding Life Settlements.

We have significant concerns regarding the substance and due process surrounding the decision to allow for a FV option in the valuation of Life Settlements. Particularly troubling is the decision to not re-expose a revised FSP for public comment, given that the subject pronouncement would be both a substantive change in accounting for affected entities, and, as we understand, have standing in the GAAP hierarchy as a "board-directed FSP".

While I apologize for our comments being somewhat cursory given the time constraint, our issues can be summarized as such:

Is an option a good thing?

- In general, optionality leads to inconsistent treatment between different entities reporting. In this case, it could also lead to competitive advantages for certain entities. Generating a FV for the contracts will probably be experience model based. Those entities that already have significant capacity to generate those models will have an advantage, to the extent the FV Option is a benefit.

What are the terms of election?

- The Board requested that staff insert a FV Option, without substantively discussing the terms of the option, and without allowing public comment on the terms. Significant issues:
 - Will there be any limitations on who can select the option?
 - What are the circumstances, if any, under which that election can be changed? For instance, are subsequent holders of the contracts or securities beholden to the initial purchaser's election (these contracts are frequently produced by one entity and

To influence the development of international accounting standards to ensure that they result in robust, high quality standards for insurance enterprises

"pooled" and sold to a second entity. This is distinct from a secondary market)?
What about in a business combination or sale of a portfolio?

- What is the transition guidance:
 - From current accounting to FV;
 - From investment to FV and visa versa?
 - This is a particularly interesting question given that the investment method and cash surrender values are in some ways unique.

We also note that the FV Option Project, which may be what is being relied on to provide answers to some of these questions, has yet to be adopted.

What does FV Mean?

- There has been no consideration of whether the FV Measurement guidance is appropriate for a contingent asset of this kind. The FV Measurement project was started in order to clarify and make consistent CURRENT applications of FV in CURRENT FASB standards. While the intent was to allow future reference to the standard when requiring a FV, this should not be done without substantive consideration, discussion and comment on whether that standard is appropriate.
- This could be a significant issue for the FVM standard:
 - Many of the "Market Inputs," such as the entity's mortality expectations, are going to be non-observable internal estimates, and necessarily portfolio based. Current FASB guidance generally calls for contract by contract evaluation of the value of an asset. These are issues and problems that we do not believe have been fully explored, discussed or resolved regarding the FVM standard, given that the standard was never intended to apply to insurance (for either insurer or beneficiary).
 - FV estimates of these assets, in accordance with this guidance have not been proven to be appropriate.
- At the beginning of the FV Measurement Project the GNAIE wrote to the FASB to express concern with the guidance in the proposed project, and the fact that insurance contracts were not scoped out. We were told not to worry, that it was not necessary to scope out valuations that are not required to be given a FV in current GAAP, and if and when there was discussion of applying FV Measurement to insurance contracts, it would be fully evaluated. While what is under discussion is an asset, it presents many of the same issues as insurance liabilities, particularly that it is not required to be carried at FV under current guidance. Yet full discussion of the application of FV is not being entertained, nor is comment on the specific pronouncement being received.

Due Process

- The "board-directed FSP" is a relatively new policy instrument. Despite its name, it is one that carries significant weight. For instance, the current proposal is to rank it at the level of an FAS in the GAAP hierarchy. If this "instrument" is going to succeed in clarifying rather than confusing issues, we believe it must be afforded the same standards of due process given to other pronouncements that significantly change the accounting treatment of preparers. We consider this to be serious breach of the FASB's due process.



Thank you for your consideration

Yours truly,

A handwritten signature in black ink that reads "Douglas W. Barnett". The signature is written in a cursive style with a prominent flourish at the end.

Executive Director