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Mr. Lawrence W. Smith, Director
Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

Proposed FASB Staff Position No. TB 85-4-a, "Accounting for Life Settlement Contracts by Investors"

Dear Mr. Smith:

We agree with the Board's conclusion set forth in Proposed FASB Staff Position No. TB 85-4-a, "Accounting for Life Settlement Contracts by Investors," that investors in life settlement contracts should apply a model in accounting for investments in such contracts different from the model that is applicable to entities that have an insurable interest in the insured. However, because the Board's conclusions in the Proposed FASB Staff Position effectively represent an amendment to FASB Technical Bulletin No. 85-4, "Accounting for Purchases of Life Insurance," we believe that the Technical Bulletin should be amended to address the accounting for both life settlement contracts and other life insurance contracts and to make a sufficiently clear distinction between the two types of contracts.

Footnote 1 of FASB Technical Bulletin 85-4 states that "the provisions of this Technical Bulletin apply to all entities that purchase life insurance in which the entity is either the owner or beneficiary of the contract, without regard to the funding objective of the purchase." In addition, as described in paragraph 10 of the Technical Bulletin, the Board specifically concluded that additional settlement amounts in excess of the cash surrender value are created, at least in part, by future events including future premium payments and future earnings credited to the contract. A life settlement contract is a type of investment in life insurance. The Board's conclusions in the Proposed FASB Staff Position are different from the conclusions in the Technical Bulletin and, as a result, the Technical Bulletin should be amended to reflect the Board's conclusions expressed in the Proposed FASB Staff Position. Otherwise, investments in life settlement contracts would fall within the scope of two different authoritative standards with conflicting guidance on the accounting for the investment.



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The Board asked respondents to comment on whether fair value measurement of life settlement contracts is reliably determinable, including whether sufficient medical information on individual contracts is readily available to life settlement providers. We understand that investors in life settlement contracts may enter into agreements with the insured parties that permit investors to receive medical information about the insured parties on a regular basis. Additionally, investors in life settlement contracts would often have access to a significant amount of actuarial data. However, we encourage the Board to obtain additional information from investors in life settlement contracts to obtain a greater understanding of the availability of individual insureds' medical information and the use of actuarial information in estimating the fair value of these investments.

The Proposed FASB Staff Position would require retrospective application. We believe that recognition of the cumulative effect of the change in accounting for existing contracts as of the adoption date or prospective application would be more appropriate transition approaches due to potential difficulties involved in retrospectively applying the provisions of the Proposed FASB Staff Position to contracts that have settled in prior periods.

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If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Paul Munter at (212) 909-5567.

Very truly yours,

KPMG LLP