

Joseph L. Sclafani Executive Vice President and Controller



August 2, 2006

Financial Accounting Standards Board 401 Merritt 7 Norwalk, CT 06856-5116

Re: Proposed EITF Issue No. 06-5, Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4

## Dear Sir/Madam:

JPMorgan Chase & Co. (JPMorgan Chase or the Firm) appreciates the opportunity to comment on Proposed EITF Issue No. 06-5, Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Proposed EITF), which addresses two specific issues related to measuring the cash surrender value (CSV) of life insurance policies. JPMorgan Chase generally supports the Proposed EITF; however, the Firm believes that the language in the consensus for Issue 2 should be clarified as described in our response to the Task Force's specific questions (see Question 2 of the Attachment).

Besides this request for a clarification of the consensus reached on Issue 2, the Firm's only other specific comment relates to paragraph 7 of the Proposed EITF. The last sentence of that paragraph states, "The Task Force also noted that any amount that is ultimately realized by the policyholder upon the assumed surrender of the final policy (or final certificate in a group policy) shall be included in the "amount that could be realized under the insurance contract." This sentence as written is confusing because the phrase "is ultimately realized" suggests an actual completed event, while the phrase "assumed surrender" implies a hypothetical event. It appears that the first phrase should be revised as "would be ultimately realized" to agree with the idea of the "assumed surrender."

Attached are the Firm's responses to the specific questions posed in the Proposed EITF. We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212-270-7559 or Julie Donatelli at 312-325-5084.

Very truly yours, Joseph Sclafani

## JPMorgan Chase Attachment Responses To Questions Posed in EITF 06-5

Question 1: Whether the policyholder should consider all amounts included in the contractual terms of the insurance policy when determining the "amount that could be realized."

Response: Yes. Because claims stabilization reserves and deferred acquisition costs (DAC) taxes are ultimately recoverable by the policyholder, the Firm believes that they meet the definition of an asset and should therefore be included in determining the "amount that could be realized."

Question 2: Whether a policyholder should determine the "amount that could be realized" on the assumed surrender of an individual-life policy (or certificate in a group policy).

Response: As a financial institution that is regulated by the Office of the Comptroller of the Currency ("OCC"), JPMorgan Chase is subject to OCC 2004-56, "Interagency Statement on the Purchase and Risk Management of Life Insurance," which also provides accounting guidance on this specific issue. Specifically, OCC 2004-56 addresses the situation where an institution purchases multiple insurance policies from the same insurance carrier, with each policy having its own surrender charge. The insurance carrier may also have issued a rider or other contractual provision stating that the carrier will waive the surrender charges if all of the policies are surrendered at the same time.

Based on that fact pattern, OCC 2004-56 provides the following guidance: "an institution should report each of the insurance policies on its balance sheet at the policy's CSV reported by the insurance carrier, less any applicable surrender charges not reflected in the reported CSV, without regard to the existence of the rider." Based on the Firm's interpretation of the draft consensus on Issue 2, we believe that the Task Force's intent is for the guidance in EITF 06-5 to be consistent with the regulatory guidance cited above. Accordingly, JPMorgan Chase recommends that the language in the consensus be revised to more closely conform to that used in OCC 2004-56, as we believe it is more clear than the consensus to Issue 2 as currently drafted. Specifically we recommend that the Task Force clarify that EITF 06-05 has been drafted to address situations where a policyholder would incur a surrender charge upon the surrender of any one of several policies (certificates). If the Board chooses not to conform the language in the draft consensus to that in OCC 2004-56, the Firm alternatively suggests including a statement within EITF 06-5 acknowledging that the consensus on Issue 2 is intended to be consistent with the requirements of OCC 2004-56. This should help prevent the inadvertent creation of differences between GAAP and regulatory reporting requirements.

Question 3: The commercial substance of the provisions in an insurance contract that provide a higher cash surrender value amount if all of the policies (or the group policy) are surrendered at once for cash (since the surrender charges have been waived).

Response: Due to the significant and unfavorable tax consequences inherent in early surrenders of life insurance policies, the Firm believes that surrenders of all policies at once for cash occur very rarely in practice. Because such surrenders are rare, and often entail a very unusual set of facts and circumstances, it is difficult to provide general comments about the commercial substance of the provisions.

Question 4: How often a policyholder surrenders all of the individual policies (or the group policy) at once for cash, excluding those surrenders where the individual policies (or the group policy are transferred to another carrier.

Response: As noted above, the Firm believes that such surrenders are rare.