Actuarial Communication COMMENTS ON FASB PROPOSED ACCOUNTING STANDARDS UPDATE OF TOPIC 825 AND TOPIC 815 - EXPOSURE DRAFT ISSUED MAY 26, 2010

September 28, 2010

Limitations and Conditions

My name is Vincent J. Granieri, Chief Financial Officer and Chief Actuary of 21st Services, LLC (21st). I am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries and an Enrolled Actuary under ERISA. I hold a B.S. degree from Ball State University and an MBA from the Harvard Graduate School of Business Administration. I have been involved in the Life Settlement business for over three years. Initially, I was responsible for valuing life insurance policies on the secondary market and preparing bids on these policies for a provider organization that purchased policies for its clients and its own portfolio. Later, I joined 21st and am responsible for all actuarial and financial activities, which include analysis of life settlement mortality experience and enhancing 21st, s proprietary underwriting models that produce life expectancy estimates for the life settlement market. I am qualified to opine on the FASB proposed Accounting Standards Update of Topic 825 and Topic 815 (the Update) because of my education, background and experience.

I am responsible for this report in its entirety. The opinions expressed in this expert report are solely mine and do not reflect the opinions of any other party. I am available to further discuss this report with FASB representatives. This report is prepared for the express purpose of providing an opinion regarding the Update, dated May 26, 2010. I reserve the right to submit a supplemental report as additional information becomes available, if I subsequently become aware of other pertinent matters or additional issues.

I appreciate the opportunity to provide my opinion to the FASB and will utilize the recommended format. I will reference the relevant questions as presented in the proposed accounting standards update. My comments are predominantly focused on life insurance contracts that are purchased in the secondary life insurance market.

Question 1.

The scope of this proposed Update excludes life insurance contracts with direct insurance components as defined and includes life insurance contracts without such a component, which means life settlement transactions would be included in the scope. I agree with this treatment for both situations. Life insurance contracts entered into to mitigate risk (as a policyholder, for example) or to bear risk (as an insurer) have a primary purpose that

is outside the investment realm. Life settlement contracts, as correctly stated, involve an investor with no insurable interest entering into a contract. Parenthetically, the 'significant practical issues about the measurement of these contracts at fair value' (BC39.) are not insurmountable. In fact, investors in life settlements resolve these issues as part of the purchase decision.

With respect to life settlement transactions, the fair value method is appropriate. The previous option of the investment method, as specified in (FSP) FTB 85-4-1 is inconsistent in reflecting the time value of money in the accounting for the transaction, which produces misleading and incorrect results. Life settlement transactions are investment vehicles and as such are appropriately accounted for as such.

It is important that valuation guidance and regulations should be principles-based rather than to endorse one particular method. Persons with sufficient training and experience should certify the valuations. In other similar situations, this means actuaries and that is appropriate for this situation as well.

Certain other independent experts are necessary in the valuation process as well. In particular, life expectancy calculations are vital to setting the fair value of life settlement contracts. It is important that these calculations be performed by independent parties. The Board should not endorse any one particular method of calculating life expectancies, but instead should develop a principles-based approach. Unfortunately, the purveyors of life expectancy calculations have suggested that their particular methods be endorsed above all others.

Question 3.

Ideally, both the assets underlying deposit-type and investment contracts of insurance and the corresponding liabilities be measured at fair value. When applied to the deposit-type insurance contract, this implies that an insured's current health status be considered in determining the liability at fair value. This occurs because every insured's health will change from the moment they are underwritten and the contract is entered into. With the passage of time, the insureds of a certain risk classification may improve, decline or remain in that classification. True fair value accounting would recognize these changes. This would have tremendous implications for the life insurance business as current accounting and valuation does not generally recognize changes in risk classification category (e.g. select, preferred, super-preferred, standard, substandard) are not reflected in subsequent valuations.