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30 July 2005

Ms. Suzanne Q. Bielstein
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DAte Received:

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

Dear Ms. Bielstein:

Credit Suisse Group ("CSG") appreciates the opportunity to express our views on the Financial Accounting Standard Board's ("FASB") proposed FASB Staff Position (the "FSP") No. TB 85-4-a: *"Accounting for Life Settlement Contracts by Investors* as posted on 17 June 2005 to the FASB's website. CSG's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). While our subsidiary Winterthur Group is an issuer of life insurance policies, our investment banking division acts as a financer to third-party life settlement providers. We focus our comments on the accounting of investments in life insurance policies and not on the issuance of life insurance policies.

The life settlement industry provides liquidity to individuals owning life insurance policies and often enables them to receive a higher value for their policy than if they were to surrender the policy to the insurance carrier. A recent study[1] estimates that approximately $2 billion in face amount of insurance policies were purchased in 2002 in connection with life settlements, which reflects a 19 percent compound growth rate since 1998. The majority of all life settlement transactions involve whole life policies. A recent Wharton study[2] estimates the total value of life insurance policies relevant to the life settlement market to be as large as $100 billion. The accounting for investments in life insurance policies will be a significant factor for many publicly listed institutions that are considering whether to enter or expand their involvement in this rapidly growing marketplace. Greater competition in the marketplace will benefit the millions of Americans who own life insurance policies, perhaps the single most commonly held asset in the United States.

[1] "Life Settlements, Additional Pressure on Life Profits," Conning Research & Consulting, Inc., 2003
[2] Neil A. Doherty, Hal J. Singer, "The Benefits of a Secondary Market For Life Insurance Policies," Wharton Financial Institutions Center, 2002.

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We agree with the FASB's position that the accounting guidance provided in TB 85-4 *"Accounting for Purchases of Life Insurance"* is inappropriate for the investing activity arising from the life settlement business. TB 85-4's requirement to carry life insurance policies at their cash surrender value creates an accounting model that is inconsistent with the economics of the activity as well as the accounting for other investments with similar characteristics.

We believe, however, that application of the so-called investment method to life settlement contracts, as proposed in the FSP, still fails to fully reflect the economic substance of the investing activity and does not remove the accounting inconsistency with other investments that exhibit similar characteristics. We believe the more appropriate accounting treatment would be application of the fair value method, both at inception and subsequent to the acquisition date. We understand that the FASB Board has various issues and questions regarding this approach, and we will attempt to address them in this letter.

Additionally, adoption of the investment method would be inconsistent with the Board's general advance to the fair value method for all financial instruments. The Board has stated that fair value is the most relevant measurement attribute for financial instruments, and the Board has the opportunity with this FSP to further implement this fundamental principle.

Scope

Technically, the "owner" of the policy may or may not be the insured. The insured may have designated a trust or other entity as owner and beneficiary of the policy for estate planning or other purposes. The entity holding the insurance policy may be sold to a life settlement provider, rather than the policy itself, and such a transaction may, inappropriately, not meet the definition of a life settlement contract as currently defined in the FSP. That point notwithstanding, we believe that all investments in a life insurance policy that are held for investment intent should be considered within the scope of the FSP.

Reliability of Fair Value

We note that the Board has expressed reservations over the fair value model because they do not believe that fair value can be reliably determined after the policy is purchased. We believe that the fair value of an investment in a life insurance policy is reliably determinable and note as well that there are a number of financial instruments that are required to be recorded at fair value despite the existence of factors that require estimates in order to arrive at fair value.

A whole life insurance policy consists of two fixed streams of cash flows (the premium payments and the death benefit). There is only one single variable that requires an estimate when determining the fair value of a whole life insurance policy: the contract's duration. The duration of an individual life insurance policy is a function of the related individual's life expectancy. Over the decades, government

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authorities have maintained statistics related to death and regularly publish updated information on mortality. In the United States, the U.S. Department of Health and Human Services has published detailed mortality tables since 1959 and on an annual basis publishes updated mortality data as well as life expectancy figures for persons aged 0 –100. This information forms the basis used by the insurance industry to determine the premiums for life insurance policies.

We think it is important for the Board to understand that financial institutions and insurance companies currently execute "longevity swaps", which are swap agreements whose terms are tied to the mortality of individuals. These swap agreements meet the definition of a derivative as defined in Statement of Financial Accounting Standards No. 133 *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 133") and are accounted for at fair value. Fair value for such agreements is calculated using market interest rates and estimates of life expectancy based on the mortality data described above.

We note for comparison purposes that most mortgage backed securities have a significant amount of uncertainty regarding their duration due to the pre-payment risk of the underlying mortgage loans, yet these instruments are afforded fair value accounting under Statement of Financial Accounting Standards No. 115 *"Accounting for Certain Investments in Debt and Equity Securities"*.

We expect that as the life settlement market further develops price transparency will continue to increase. We believe that if the FASB does not adopt a fair value method of accounting today, there will be a need to re-visit the accounting for purchased life insurance policies in the near future.

A view that the fair value of an investment in a life insurance policy is not reliably determinable appears inconsistent with the fair value measurement guidance that the FASB is expected to issue in the coming months. The Proposed Fair Value Measurement Standard describes a hierarchy of fair value that is based upon the reliability of inputs used to estimate fair value. The hierarchy itself indicates that some fair value estimates are more reliable than others, however we understand that the Board does not intend to limit the use of fair value accounting to only those instruments whose fair value inputs are based on market data. As a result we believe the Board's position in the FSP that life insurance policies cannot be recorded at fair value is inconsistent with the proposed hierarchy.

Medical Information

We understand that the FASB Board is concerned as to whether sufficient medical information on insured individuals would be readily available to life settlement providers. The National Association of Insurance Commissioners Viatical Settlements Model Act and Regulation (the "Model Act") has been adopted (with state variations) by approximately 36 states. The Model Act establishes regulation of viatical and life settlement transactions including regulations over life settlement providers, and allows life settlement providers to obtain medical information from

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insured individuals. The Model Act permits a life settlement provider to obtain updated medical information on the insured on either a quarterly or monthly basis, depending on the life expectancy of the insured. As a pre-requisite to financing, we require and have always been provided access to medical information of the insured and obtain a waiver from the insured allowing us access to updated medical information. We believe the process of obtaining regular medical information on the insured in order to determine fair value is similar to that of a Private Equity Fund that must obtain periodic financial information from and on its investees.

Alternatively, as described below, we believe financial institutions and investors will view their investments on a portfolio managed basis, and thus a change in health of a few individuals would not change the portfolio value, as this will remain consistent with the changes in mortality of the general population. With the accumulation of policies, the portfolio will be increasingly linked to general mortality and less to individualized medical information.

We believe that as the life settlement market further develops we will see securitization of life insurance policies. We believe that the insured persons would enjoy the same confidentiality as individuals whose mortgages are securitized. An example prospectus for a life insurance securitization may reveal details such as number of policies in the pool, in what states the insured persons reside, the average death benefit of the pool, the average age of the insured, the breakdown of the insured individuals between male and female, etc. Insured individuals' privacy would not be breached.

Unit of Account

We note in the FASB Board minutes of 11 May 2005 that the Board believes the unit of account for measurement purposes would be an individual life settlement contract, and we agree with this position. Nevertheless, in contemplating the appropriateness of fair valuing life settlement contracts one should consider that financial institutions and investors would tend to view these instruments on a managed portfolio basis. Just as investors generally do not "trade" a single individual mortgage, but rather a portfolio of mortgage loans or a bond based on a portfolio of mortgages, we expect that there would be no substantial trading of single life settlement contracts but trading in a portfolio of accumulated life settlement contracts. A similar process is observable in the credit card securitization business.

Convergence with IFRS

International Accounting Standard No. 32 ("IAS 32") *"Financial Instruments: Disclosure and Presentation"* and International Accounting Standard No. 39 ("IAS 39") *"Financial Instruments: Recognition and Measurement"* specifically exclude Insurance Contracts, as defined under International Financial Reporting Standards No 4 ("IFRS 4") *"Insurance Contracts"*, from their scope. However, investments in insurance policies are excluded from the scope of IFRS 4 *"Insurance Contracts"*. It is our understanding that an insurance policy meets the definition of a financial

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instrument under IAS 32, and while insurance policies are scoped out of IAS 32 and IAS 39, most reporting entities nevertheless look to IAS 39 for accounting for insurance policies held for investment purposes due to the lack of guidance for such investments in IFRS 4. IAS 39 provides for fair value accounting if the instrument is held for trading purposes or, under the fair value option, if the instrument(s) in question are a group of financial assets managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to senior management. Based on the above we believe that insurance contracts could be carried at fair value under International Financial Reporting Standards.

We are aware that the FASB and the IASB are working towards a convergence of US GAAP and IFRS and believe that amendment of the FSP to apply the fair value method to investments in insurance policies would complement this process.

Disclosures

As we believe application of the fair value method is appropriate for accounting for investments in life insurance policies, we believe that the FSP should be amended to require disclosures concerning how fair value is measured at the balance sheet date. Such a disclosure should include a description of the methodology used in determining fair value and the estimated weighted average duration of all policies held at the date of the statement of financial position.

The FSP proposes disclosure of the number of life settlement contracts held at the date of the statement of financial position. We do not believe this information would be useful to the reader of the financial statements and is inconsistent with disclosure requirements for similar type investments, such as investment securities or trading assets. We believe this proposed disclosure should be removed.

With respect to paragraph 8, we would note that the owner of a life insurance policy is never contractually bound to make premium payments, however failure to do so would cause the policy to lapse. Accordingly, we would suggest that paragraph 8 be reworded as follows:

> "The total amount of life insurance premiums that would be paid, if they were contractually required, during the 12 month period following the date of the most recent statement of financial position, for all policies held as of that date."

As an observation relating to the reliability of fair value for investments in insurance policies, we note in the disclosure requirements of the current FSP that three of the four proposed disclosures refer to the instruments according to their "expected term". It is our position that "expected term" is the central factor in valuing investments in insurance policies. If a reporting entity is in a position to reliably disclose in the Notes to its financial statements information concerning the expected term of its

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investments in such instruments, it is also in a position to fair value those investments on the same basis.

Should the Board reject adoption of the fair value method of accounting for investments in life insurance policies, we recommend that the final FSP include a "Basis for Conclusions" section so as to provide the reasoning behind the decision not to follow other promulgated accounting guidance.

If you have any questions or would like any additional information on the comments we have provided, please do not hesitate to contact Eric Schuppenhauer in New York on 1-212-538-2898 or Todd Runyan in Zurich on (41)-44-334-8063.

Sincerely,

Rudolf Bless
Managing Director
Chief Accounting Officer

Christopher Harris
Vice President
Group Accounting Policies