August 1, 2005

Mr. Lawrence Smith, CPA
Director, Technical Application & Implementation
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 1

File Reference: FSPTB85-4-A

DAte Received:

Re: June 17, 2005 Proposed FASB Staff Position (FSP) TB 85-4-a, Accounting for Life Settlement Contracts by Investors

Dear Mr. Smith:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the aforementioned proposal and is providing the following comments for your consideration.

GENERAL COMMENT

TIC believes the proposed FSP improves upon the accounting described in FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance. However, the investment method outlined in the proposal is also flawed. TIC favors the alternative method considered by the Board and recommends that the scope of the proposal be expanded.

SPECIFIC COMMENTS

Fair value measurement for life settlement contracts

Contrary to the Board's view, TIC supports the use of fair value as the measurement attribute for life settlement contract investments subsequent to the purchase date. TIC believes that fair value is preferable to the investment method and that essential medical data on the insured would be available. Certain TIC members who have viatical settlement companies as clients have found that generally they require the insured to permit full access to required medical data as a precondition to cashing out his or her policy. Subsequent to the purchase date, an actuarial value determination could approximate fair value.

TIC is also concerned with the revenue recognition method used for life settlement contracts. The current and proposed accounting follow a "completed contract" model

August 1, 2005 Mr. Lawrence Smith, CPA

whereby contract revenue is not recognized until the insured dies. These contracts are purchased as investments at deep discounts and should therefore accrete to income over time based on changes in the fair value of the contracts. TIC feels that a method of accounting that is similar to a "percentage of completion" would be appropriate. The income to be recognized would be a percentage of estimated total income. This method would also provide earlier recognition for loss contracts and more closely resemble their true economic substance throughout the life of the contract.

Expand scope to companies that purchase whole life insurance contracts

TIC believes the FASB should expand its fair value accounting to the purchase of all whole life insurance contracts which have similar attributes to the life settlement contracts. One TIC member had an example in practice involving the application of FASB Statement No.141, Business Combinations, to a purchase accounting in which the buyer assumed a whole life policy from the seller. The policy was initially measured at fair value and then written down to the amount of the cash surrender value immediately after the acquisition date—in a manner similar to the accounting for acquired in-process research and development costs. Expanding fair value accounting to whole life insurance contracts would eliminate this imperfection of the current mixed attribute model.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Stephen M. McEachern, Chair PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees