NEWPORT GROUP

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To: Director - FASB Subject: EITF0605



LETTER OF COMMENT NO.

Ladies and Gentlemen,

Reference: EITF0605

Please consider making certain that your definition of "surrender" includes not only a surrender of a policy for cash, but also a surrender of a policy to accomplish a Sec. 1035 exchange. Each action is equally a surrender.

However, a number of insurance companies that provide COLI/BOLI products treat these surrenders separately and differently from each other. They allow full recovery of CSV only on a surrender for cash and not in connection with an exchange. This artificial practice distorts the accounting results and perverts the intention that you appear to have for insurance product accounting.

These carriers—and many brokers and consultants—advise their clients that they should book under TB 85-4 the amount realized on a surrender for cash, but they likewise advise the client to ignore recording any diminution or loss of CSV that would occur on surrender pursuant to a Sec. 1035 exchange.

This is backwards thinking, because the probability of a surrender pursuant to a 1035 exchange is significantly greater than a surrender for cash, since there are no taxes or penalties imposed by the government in connection with a 1035 exchange.

Thus, under current practice, you have a highly unlikely event (surrender for cash) which requires accounting for surrender charges and a reasonably probable event (surrender for 1035 exchange) which requires no accounting for surrender charges. This occurs because of the slight-of-hand employed by some carriers and brokers to define "surrender" only as an event when cash is received directly by the policyholder.

This accounting anomaly can be easily solved by having FASB/EITF make clear that a "surrender" includes <u>both</u> for cash and pursuant to an exchange. The "amount that could be realized under the insurance contract" should take into account surrender charges in both instances.