MINUTES

To:	Board Members		
From:	Goodman (x295)		
Subject:	Minutes of October 19, 2005 Board Meeting (Life Settlements)	**Date:**	10/25/05
cc:	FASB: Smith, Golden, Cropsey, Belcher, Thuener, Trench, Bielstein, Petrone, Mahoney, Swift, Polley, Carney, Vernuccio, Intranet; IASB: Leisenring		

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FSP.

Topic:	Life Settlements
Basis for Discussion:	Memorandums dated October 6, October 7, and October 11, 2005
Length of Discussion:	10:15 to 11:05
Attendance:	
Board members present:	Herz, Batavick, Crooch, Schipper, Seidman, Trott, and Young
Board members absent:	None
Staff in charge of topic:	Beswick
Other staff at Board table:	Belcher, Golden, Goodman, and Smith
Outside participants:	None

Summary of Decisions Reached:

The Board decided, based on issues raised in constituent comment letters, to allow the investor to select either fair value or the investment method as the relevant measurement attribute for investments in life settlement contracts. The staff is expected to return to the Board at a later date to redeliberate the remaining issues raised by constituents in the comment letter process and address how the fair value election would be applied. The Board also decided not to expand the scope of the FSP at this time; however, it requested that the staff return to the Board after redeliberations are complete with respect to the current FSP with a formal agenda request to add a second phase to the project to consider expanding the scope to include all purchases of life insurance accounted for in accordance with FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*. Finally, the Board decided that the decisions reached at the meeting would not require reexposure of the proposed FASB Staff Position (FSP) FTB 85-4-a, "Accounting for Life Settlement Contracts by Investors."

Objective of Meeting:

The objective of the October 19, 2005 Board meeting was for the Board to discuss two issues raised in constituent comment letters: (1) whether to affirm the decision to require the investment method as the measurement attribute for investments in life settlements and (2) whether the staff should perform research to help the Board evaluate if the scope of the proposed FSP should be expanded to include all purchases of life insurance currently accounted for under Technical Bulletin 85-4.

Matters Discussed and Decisions Reached:

1. Mr. Beswick stated that the purpose of the meeting was for the Board to discuss two issues raised in constituent comment letters: (1) whether to affirm the decision to require the investment method as the measurement attribute for investments in life settlements and (2) whether the staff should perform research to help the Board evaluate if the scope of the proposed FSP should be expanded to include all purchases of life insurance currently accounted for under Technical Bulletin 85-4. Regarding the subsequent measurement attribute (first issue), he noted that 11 out of 12 constituents commented on either the appropriateness of fair value or the availability

of updated medical information and that the comments were generally split between favoring fair value and the investment method as the appropriate measurement attribute.

2. Mr. Beswick asked the Board to consider the following alternatives for the first issue:
   a. View A—Maintain the investment method as the required measurement attribute for investments in life settlements by the proposed FSP.
   b. View B—Select fair value as the required measurement attribute for investments in life settlements by the proposed FSP.
   c. View C—Allow the investor the option to select either fair value or the investment method as the measurement attribute for investments in life settlements.

   Mr. Beswick noted that depending on the Board's decision on the measurement attribute, the staff would have several follow-up issues to be addressed at a later date.
3. The Board decided on View C. Although the initial vote was one for View A (Young), three for View B (Crooch, Schipper, and Trott), and three for View C (Herz, Batavick, and Seidman), Mr. Trott stated that he would vote for View C as long as that decision would not require reexposure of the proposed FSP. The Board decided that reexposure would not be required. Messrs. Batavick and Young stated that they would object to View B. Mr. Herz and Ms. Seidman stated that they would not have objected to View B as long as the proposed FSP were reexposed.
4. Mr. Young stated that he supports View A because he has concerns about the reliability of the subsequent fair value measurement of life settlements, as differentiated from viatical settlements, which have a shorter expected duration (two years or less). He added that he also would be concerned about giving investors a blanket option for fair value unless the Board established some reliability threshold, although he would be willing to revisit fair value as the measurement attribute in the future.
5. Ms. Schipper agreed with Mr. Trott that adding a reliability threshold to fair value measurements would be inappropriate. She stated that she supports View B because (a) allowing investors a measurement option would lead to incomparability, (b) investments in life settlements are investments that should be accounted for like other financial instruments, and (c) the staff has provided evidence that investors can obtain

reliable subsequent measurement inputs. Mr. Crooch added that subsequent fair value measurement reflects the way investors manage their investments.

6. Mr. Trott stated his support for View B. He stated that investments in life settlements are financial instruments and therefore should not be measured at amortized cost. He agreed with Ms. Schipper that investors could remeasure existing investments in their portfolios based on new initial purchase transactions, analogizing to interest rate swaps—accounted for as financial instruments measured at fair value—which are actively entered into, although infrequently traded.
7. Mr. Batavick stated his support for View C, noting that any of the above three alternatives would be preferable to the current accounting for investments in life settlements under Technical Bulletin 85-4. He stated that he prefers to give investors the option to account for their investment either at fair value or the investment method because questions remain regarding the subsequent measurement reliability, unit of account, and cost/benefit of requiring measurement at fair value.
8. Ms. Seidman agreed with Mr. Batavick that the key reason to issue the proposed FSP is to improve the current accounting for investments in life settlements. She added that the current accounting for investments generally is a mixed-attribute model. Notwithstanding the Board's long-term goal of measuring financial instruments at fair value, she observed that forcing a fair value measurement of a specific type of investment would represent another piecemeal change which could exacerbate the mixed attribute model for entities that are engaged in a buy-and-hold strategy. She stated that allowing entities a measurement option would be the most appropriate interim step, because it allows entities to use a consistent measurement attribute for different types of investment used in similar strategies. Mr. Herz agreed, adding that not all entities may be able to measure their investments at fair value.
9. Ms. Seidman and Mr. Smith noted that the decisions reached to date in the fair value option project, although they have not yet been exposed to due process, would scope in investments in life settlements because such investments are financial instruments, irrespective of their being insurance products.
10. Ms. Schipper asked whether the measurement election would be applied as a policy decision to all investments, a policy decision to portfolio segments (akin to servicing rights), or on a contract-by-contract basis and, if on a contract-by-contract basis,

whether the Board should specify that an entity's investment designation under the investment method may be called into question if the entity does not hold such investments to maturity (akin to "tainting" for held-to-maturity securities). Mr. Beswick stated that the staff will ask the Board to address this and other follow-up issues at a later date.

11. Ms. Schipper clarified that the so-called law of large numbers has two applications in the context of investments in life settlements: the first application relates to how an entity structures its investment portfolio to achieve a certain risk/return profile in the payoff structure, while the second relates to measuring each investment within that portfolio. She stated that the Board can only be concerned about the second application.
12. Mr. Young asked what disclosures should be required. Messrs. Herz and Trott stated that the disclosures specified in the proposed fair value measurement document likely would suffice. Ms. Seidman added that the Board had provided interim disclosures for servicing rights and no specific disclosures for hybrids in the absence of final documents on fair value measurement and the fair value option. Mr. Beswick stated that the staff will ask the Board to address this and other follow-up issues at a later date.
13. The Board considered the following alternatives for the second issue:
    a. View A— The staff should conduct additional research to enable the Board to evaluate if the scope of the proposed FSP should be expanded to include all purchases of life insurance accounted for in accordance with Technical Bulletin 85-4.
    b. View B— The scope of the proposed FSP should not be expanded and the staff should continue with the current project scope.
    c. View C—The staff should continue with the current project scope but bring the Board a formal agenda request to add a second phase to the project to consider expanding the scope to include all purchases of life insurance.
14. The Board decided on View C. The vote was one for View A (Young), two for View B (Batavick and Seidman), and four for View C (Herz, Crooch, Schipper, and Trott). Mr. Smith stated that the formal agenda request likely would not be made before January 2006.

15. Mr. Young stated that he supports View A because it would provide consistent reporting for investments in life settlement contracts, regardless of whether the entity has an insurable interest.
16. Mr. Batavick and Ms. Seidman expressed concern about "scope creep." Ms. Seidman noted that because no definitive scope line could be drawn neatly—for example, the accounting by underwriters could legitimately be scoped into the project because the Board's rationale is that these investments are financial instruments—the Board should focus on making an incremental improvement to the accounting for investments in life settlements.
17. Mr. Trott stated that he supports View C because the accounting prescribed by Technical Bulletin 85-4 is outdated, regardless of whether an entity has an insurable interest. He added that investments in life settlements should be treated like investments in bonds in that the prescribed accounting by the investor does not depend on whether the investor is the initial or a subsequent purchaser of the investment.
18. Ms. Schipper cautioned that the Board's decisions to date on this project leave three measurement alternatives: an entity with an insurable interest (the initial purchaser) will use cash surrender value, while an investor (a subsequent purchaser) can use either fair value or the investment method. Mr. Golden added that in addition to cash surrender value, an entity with an insurable interest also will be able to elect fair value under the decisions reached to date in the fair value option project.
19. Ms. Seidman asked how this project would relate to the project on insurance risk transfer, noting that risk transfer applies to both the issuer and the insured. She suggested that some contracts called insurance would no longer be accounted for as insurance and perhaps the corporate-owned life insurance issue would be resolved naturally in the risk transfer project. Ms. Schipper responded that the Board should proceed with this project because (a) the decisions reached to date on this project make an immediate improvement over the current accounting for investments in life settlements and (b) the expected timing of guidance in the insurance risk transfer project is relatively far off.

<u>Follow-up Items:</u>

Based on the Board's decisions at this meeting, the staff will present several follow-up issues relating to the measurement attribute at a later date.

General Announcements:

None.