

**EXHIBIT 3**  
Recording Adoption of FASB's FSP FTB 85-4-1

Scenario: InvestCo periodically invests in life settlement contracts. InvestCo purchased 10 life settlement contracts prior to January 1, 2007, and accounted for these contracts under FASB Technical Bulletin 85-4. The contracts' aggregate carrying amount as of January 1, 2007, is \$400,000, the 10 contracts' cash-surrender value.

InvestCo adopts FSP FTB 85-4-1 effective January 1, 2007, the beginning of its first fiscal year after the FSP's effective date, and elects to use the investment method for all 10 contracts. Under this method, the investment asset value is the sum of the purchase price, direct costs (e.g., broker fees) at acquisition, and subsequent premium payments. For these 10 contracts, this amounts to \$1,200,000.

The journal entry required to record the adoption of FSP is:

Dr. Investments in Life Settlement Contracts	\$800,000	
Cr. Cumulative Effect of Change in Accounting Principle		\$ 800,000

The presentation of adopting FSP FTB 85-4-1 in the financial statements is:

**InvestCo**  
**Statement of Retained Earnings (partial)**  
**December 31, 2007**

Retained earnings, January 1, 2007	\$2,500,000
Cumulative effect of change in accounting principle, net of income tax (Note 10)	\$ <u>520,000</u>
Adjusted retained earnings, January 1, 2007	\$3,020,000

*Note 10: Change in Accounting Principle*

Effective January 1, 2007, InvestCo adopted FSP FTB 85-4-1, *Accounting for Life Settlement Contracts by Third-Party Investors*, which requires recording a cumulative effect of change in accounting principle. Adoption of the FSP is required for fiscal years beginning after June 15, 2006. The total amount of the cumulative effect is \$800,000. Net of income taxes, the amount is \$520,000 and is recorded as an adjustment to beginning retained earnings.