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We start this issue with a section on over-the-counter (OTC) derivative risks and regulations. Paul Forrester, Joel Telpner, Edmund Parker, Lawrence Hamilton, and Jamila Piracci discuss the numerous legislative bills and Obama Administration proposals for new regulations related to OTC derivatives along with associated issues such as clearing, collateral and capital requirements, reporting and record-keeping standards, prevention of fraud and other market abuses, and self-regulatory initiatives. A large part of the recent regulatory concern has been directed toward credit default swaps, which Peter Wallison's article addresses in detail, dispelling a number of misleading notions about the risks they represent and explaining the useful role they play in providing a market-based reading of companies' risks.

Then for the eighth straight quarter, we have a section on structured finance and the financial crisis. Having addressed the causes in great detail in recent issues, we are now concerned with the measures governments, rating agencies, and various industry players are taking to rebuild the securitization market. Nathan Greene and Stuart Fleischmann outline the basic structure of the Term Asset-Backed Securities Loan Facility (TALF), explain reasons that response to the program has been disappointing so far, discuss some recent encoura-ging signs that the program is gathering momentum, and encourage the government to extend it beyond its originally planned expiry at the end of 2009. Jordan Schwartz then explains Project RESTART, an effort of the Securities Industry and Financial Markets Association (SIFMA) to address the underlying causes of declining investor confidence in the mortgage- and asset-backed securities markets by increasing transparency around the collateral backing securitizations and improving residential mortgage-backed securities (RMBS) disclosure. The next phase of Project RESTART, dealing with corporate governance, will examine all aspects of the repurchase process, inclu-ding standards and procedures for representations and warranties.

Ifti Hyder explains recent changes Moody's has made in modeling structured finance CDOs and commercial real estate CDOs based on analysis of recent data collected during the financial crisis, including some risks that are now considered to be more correlated than they were considered to be a couple of years ago. Jörn Kleinhans and Powell Thurston describe the nature of fair market valuation and other consulting services available to investors with portfolios of complex structured securities. Moorad Choudhry and Gino Landuyt outline proposed measures aimed at improving transparency and basic understanding of how securitization works to help restore market confidence, including more substantial investment in a securitization by the structurer, greater transparency of credit rating agency methodologies, more understandable and standardized data on underlying assets, a greater role for third-party valuation experts, unified standards for servicers, secondary guarantees by originating banks, and educational programs. Finally, in this section, Sue Allon

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explains the challenges faced by servicers and trustees of complex structured securities in dealing with features such as waterfalls and triggers and cautions investors in these securities that they have to take responsibility into their own hands for understanding all the complexities and protecting their investment interests.

For the fourth straight summer issue, we have a special section on life settlements. Craig Seitel starts us with an overview of this maturing industry from a life settlement provider's point of view, addressing recent issues such as a lengthening of industry longevity estimates that has depressed the value of life settlement investments, two recent IRS rulings on characterization of income, reduced demand for life settlements from investment banking firms for repackaging into various investment instruments as a result of the financial crisis, and concerns among uninformed investors over life insurer solvency. Then Boris Ziser provides an overview of the life settlement industry from the legal perspective and covers, among other issues, several recent court cases that deal with the validity of life insurance policies taken out with the intention of resale. A recent decision indicates that the intention to resell a policy is not in itself, in the absence of an actual agreement between buyer and seller, a factor that would invalidate the insurable interest in a policy.

Charles Stone and Anne Zissu approach the longevity risk in life settlements by showing how interest-only (IO) and principal-only (PO) securities can be created from a block of life settlements and how the value of the IO security can be hedged. Then Mr. Stone discusses various factors affecting supply and demand in the life settlement market, including the way the financial crisis and the recession have motivated some seniors to sell their life insurance policies, investors' continued search for an alternative asset class that has low correlation with other markets, the possible effects of rising inflation on the demand for life settlements compared to corporate bonds, increased liquidity and transparency resulting from the growing use of online auction platforms, and the use of securities linked to longevity indices.

Brian Casey and Kirk Van Brunt provide a basic primer on the complicated tax rules that apply to life insurance and the still-further complexity of taxation related to life settlements. They discuss two recent IRS rulings on ordinary versus capital gain treatment in various circumstances that are helpful in some ways and confusing in others. Then Frederic Gelfond provides additional background on the tax issues involved from both the domestic and the foreign investors' perspective, noting that the IRS rules were not drafted with the evolving life settlement industry in mind, and that recent IRS rulings address at least some of the important current issues, but that a lot of additional guidance from the IRS is still needed. David Dorr wraps up our section on life settlements, noting that industry assumptions about increased longevity have caused life settlements to decline in value but also pointing to factors that most likely will cause longevity to decrease again, providing investors with a possible arbitrage opportunity to the extent they foresee and invest ahead of a future reversal of longevity estimates used by the industry.

I note with deep sadness the passing of Chris Brown, President of Institutional Investor.

Henry A. Davis
Editor