Factsheet

ELSA's Code of Practice

ELSA's Code of Practice (the "Code") was introduced to establish common standards of best practice within the life settlement industry and protect the interests of investors in the asset class.

ELSA members certify their compliance with the Code when they apply for membership and annually thereafter. Failure to comply with the Code may ultimately result in the member being asked to resign from the association. ELSA members that are not product designers, managers or distributors are expected to encourage the Code's use in the products with which they are associated.

How Should the Code of Practice Be Used?

ELSA's Code of Practice has been curated primarily for two groups: designers, managers and distributors, and end investors.

DESIGNERS, MANAGERS, DISTRIBUTORS

Asset managers use the Code of Practice to ensure that they are adhering to the very highest of industry standards during the conducting of their business, which in turn provides their clients – institutional investors – with greater certainty, clarity, and transparency.

INVESTORS

Institutional investors use the Code of Practice as part of their initial and ongoing due diligence process. The Code provides investors with insights into industry best practices that they can use to hold their managers to account.

Edition		Code of Practice Key Dates & Revisions
1.0	July 2010	First published edition. Organised into asset origination, asset and risk management, and managing the investor relationship.
2.0	September 2012	Second edition. Reorganised into product design, disclosure and reporting, and sales and marketing.
3.0	May 2013	Third edition. Separated into requirements and guidance. Additional standards added reflecting "Big 4" auditing practice.
4.0	November 2016	Fourth edition. Additional standards added relating to COI increases, valuation, performance attribution, performance fees, data security, medical record updates, external data sources, and overhead and leverage disclosure.
5.0	May 2018	Fifth edition. Performance attribution and loan/(re)insurance disclosure reworded. Key portfolio information and portfolio breakdown reporting revised.
6.0	October 2020	Sixth edition. Member conduct section added. Guide and "Comply or Explain" procedure created.
6.1	November 2022	Current edition. Performance fees and life expectancy updating revised.

Code of Practice Coverage Areas

ELSA's Code of Practice holds its members accountable via its member Conduct section (section A).
There are three additional sections in the Code which ELSA members must absorb into their day-to-day efforts.
Abridged versions of some of the key points of the Code are:

PRODUCT DESIGN – SECTION B

Policies should be purchased in compliance with all applicable laws and regulation and, in respect of secondary market purchases in those U.S. states that require licensing, from a Broker and/or Provider licensed in those states.

Policies and Products should be valued as closely as possible to their fair value. Fair value is defined by the Financial Accounting Standards Board (FASB) in Accounting Standards Codification Topic 820 (ASC 820).

In open-ended Products where Investors' subscriptions and redemptions are made on the basis of a net asset value (NAV), that NAV should be highly correlated with, and reconcilable to, the fair value of the Policies;

Managers' performance fees should be based on realized portfolio gains, distributable proceeds, actual cash distributions or another similar measure of actual performance. They should not be based on a mark-to-model valuation of the Product or any other measure of expected performance. Nor should they be based on Policy-by- Policy gains or proceeds unless early and late maturities are treated equitably. Performance fees from profitable early maturities should not be taken, but rather reserved against potentially loss-making late maturities.

DISCLOSURE AND REPORTING – SECTION C

All promotional material and reports should:
- Comply with applicable laws and regulations;
- Be up-to-date, fair, clear, not misleading, written in plain language;
- Use consumer-friendly formats such as FAQs, charts and diagrams

Promotional material and reports should:
- Give appropriate prominence to, and ensure appropriate placement of, risk factors;
- Present risk factors using a consistent font size, at least equal to that prescribed by regulation;
- Make a clear distinction between Policy and Product cash flows and returns and specify what is, and isn't, assumed to be included in any return presented.

SALES AND MARKETING – SECTION D

Managers and Distributors should promote Products as part of a well-balanced investment portfolio and with appropriate consideration of the risk/return profile of Investors

Managers and Distributors should not knowingly accept Investors who cannot be considered as having sufficient knowledge to fully interpret and understand all of the risks associated with investing in the Product. In particular, unsophisticated retail investors are unlikely to have sufficient knowledge in this regard.

Managers and Distributors should ensure that potential Investors are provided with sufficient information to be able to make a fully informed investment decision.