



California Corporate & Securities Law

Life Settlement Contracts And The CSL

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In this recent [post](#), I wrote about California's cooling off statute with respect to viatical and life settlement contracts. Yesterday, the Securities and Exchange Commission filed this [complaint](#) alleging a massive life settlement contract bonding fraud. At the same time, the United States Attorney's Office for the Eastern District of Virginia announced the filing of a criminal action and the arrests of two individuals in connection with the same alleged fraud.

What is a "life settlement contract"? The SEC's complaint describes a "life settlement contract" as "an investment transaction in which the owner of a life insurance policy sells his policy to a third party for an amount that exceeds the policy's cash surrender value but is less than the face value or expected death benefit of the policy". The complaint further alleges that the life settlement offerings were securities within the meaning of the Securities Act of 1933.

Is a "life settlement contract" a security under the California Corporate Securities Law of 1968? The answer is yes because Corporations Code § 25019 defines a security to include a life settlement contract (or a fractionalized or pooled interest therein). The CSL further defines "life settlement contract" in Corporations Code § 25023. While the definition is roughly similar to that given by the SEC, it should be noted that the § 25023 excludes four categories of actions from the definition of "life settlement contract".

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