

**FASB Emerging Issues Task Force
Draft Abstract
EITF Issue 06-10**

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| Notice for Recipients of This Draft EITF Abstract |
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December 6, 2006

This draft abstract for EITF Issue No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements," addresses the following issues:

- Issue 1— Whether an entity should record a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee (consistent with the consensus reached in Issue 06-4)
- Issue 2— How an employer should recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement.

The attached draft abstract reflects the Task Force's tentative conclusions reached at the November 16, 2006 EITF meeting. The Task Force invites individuals and organizations to send written comments on all matters within this draft abstract. Comments are requested from those who agree with the provisions in this draft abstract as well as from those who do not. Comments are most helpful if they identify the issue and the specific paragraph or group of paragraphs to which they relate and clearly explain the issue or question. Those who disagree with the tentative conclusions presented in this draft abstract are asked to describe their suggested alternatives, supported by specific reasoning.

Comments will be considered by the Task Force at the March 14–15, 2007 EITF meeting.

Responses from interested parties wishing to comment on the draft abstract must be received in writing by January 22, 2007. Interested parties should submit their comments by email to director@fasb.org, File Reference No. EITF0610. Responses should not be sent by fax.

Title: Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements

Dates Discussed: November 16, 2006; [March 14–15, 2007]

References: FASB Statement No. 5, *Accounting for Contingencies*
FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*
FASB Statement No. 154, *Accounting Changes and Error Corrections*
FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*
FASB Concepts Statement No. 6, *Elements of Financial Statements*
FASB Special Report, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits: Questions and Answers*
APB Opinion No. 12, *Omnibus Opinion—1967*
APB Opinion No. 21, *Interest on Receivables and Payables*
AICPA Statement of Position 96-1, *Environmental Remediation Liabilities*
AICPA Issues Paper, *Accounting for Key-Person Life Insurance*, dated October 31, 1984
International Accounting Standard 19, *Employee Benefits*
EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"
EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4"

ISSUE

1. Companies purchase life insurance for various reasons that may include protecting against the loss of "key" employees, funding deferred compensation and postretirement benefit obligations, and providing an investment return. The two most common types of arrangements are endorsement split-dollar life insurance arrangements and collateral assignment split-dollar life insurance arrangements. Generally, the difference between these arrangements is dependent

* This draft abstract is being exposed for a public comment period that will end on January 22, 2007.

upon the ownership and control of the life insurance policy. In an endorsement split-dollar life insurance arrangement, the company owns and controls the insurance policy, whereas in a collateral assignment split-dollar life insurance arrangement, the employee (or the employee's estate or a trust controlled by the employee, hereinafter referred to as the "employee") owns and controls the insurance policy.

2. The Task Force reached a consensus on Issue 06-4 that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. However, questions have been raised about whether the consensus reached in Issue 06-4 should apply to collateral assignment split-dollar life insurance arrangements. This Issue also addresses the recognition and measurement of the employer's asset in a collateral assignment split-dollar life insurance arrangement.

3. The issues are:

Issue 1— Whether an entity should record a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee (consistent with the consensus reached in Issue 06-4)

Issue 2— How an employer should recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement.

Scope

4. The scope of this Issue is limited to the employer's recognition of (a) the liability and the related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods and (b) the asset in collateral assignment split-dollar arrangements. However, the employer's recognition of the liability would not apply to a collateral assignment split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to that employee's active service period with an employer or that has been settled pursuant to Statement 106.

EITF DISCUSSION

5. The Task Force reached a [consensus] on Issue 1 that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. In determining whether a postretirement benefit has been settled by an insurance contract, an employer should analyze whether the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer's asset. If the employer's asset is collateralized by the employee's (or retiree's) underlying

insurance contract or the recourse nature of the loan is not substantive, then a settlement has not occurred pursuant to Statement 106. The recourse nature of the loan is substantive if the employer has the intent and ability to fully recover amounts due under the collateral assignment arrangement in the event of default by the insurer. For example, if the amounts due under a collateral assignment split-dollar life insurance arrangement are full recourse to the employee (or retiree), but the employer does not intend to seek recovery beyond the life insurance policy, the full recourse collateral provisions of the arrangement would not be substantive and settlement of the postretirement benefit would not have occurred. However, in determining whether the postretirement benefit has been settled pursuant to Statement 106, an employer should evaluate all the available facts and circumstances of these arrangements.

6. On Issue 2, the Task Force reached a [consensus] that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Task Force observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee's obligation and ability to repay the employer. For example, if the arrangement limited the amount the employer could recover to the amount of the cash surrender value of the insurance policy held by the employee (or retiree), and if the employer's loan to the employee (or retiree) is greater than the cash surrender value of the insurance policy, at the balance sheet date the employer's asset would be limited to the amount of the cash surrender value of the insurance policy. Conversely, if the arrangement required the employee to repay the employer irrespective of the amount of the cash surrender value of the insurance policy (and assuming the employee (or retiree) is an adequate credit risk), the employer should recognize the value of the loan (including accrued interest, if applicable) considering the guidance in Opinion 21. An employer should evaluate all available information in determining the nature and substance of the collateral assignment split-dollar arrangement.

Transition

7. The [consensus] in this Issue should be effective for fiscal years beginning after December 15, 2007, with earlier application permitted. Entities should recognize the effects of applying the [consensus] in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods.

8. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through a cumulative-effect adjustment to retained earnings, the entity should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

9. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should include the recognition of:

- a. The cumulative effect of the change in accounting principle on periods prior to those presented reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented

- b. The cumulative effect of the change in accounting principle on retained earnings or on other components of equity or net assets in the statement of financial position
 - c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the change in accounting principle.
10. If an entity chooses to apply the [consensus] in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should disclose the following:
- a. A description of the prior-period information that has been retrospectively adjusted
 - b. The effect of the change in accounting principle on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement caption, and any affected per-share amounts for any prior periods retrospectively adjusted
 - c. The cumulative effect of the change in accounting principle on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

Board Ratification

11. At its [March 28, 2007] meeting, the Board ratified the [consensus] reached by the Task Force in this Issue.

STATUS

12. No further EITF discussion is planned.