DAVIS TRUST COMPANY

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EITF0604DA

LETTER OF COMMENT NO. 106

Director
Financial Accounting Standards Board
Emerging Issues Task Force

RE: EITF0604 – Comment Regarding Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

To Whom It May Concern:

Davis Trust Company is submitting this comment in response to the request for comment on the exposed Draft Abstract for EITF Issue No. 06-04, relating to split-dollar accounting.

It has been brought to our attention that the EITF proposes to require an accounting accrual during an employee's service period for any post-retirement benefit promised under a split-dollar arrangement. Davis Trust Company objects strenuously to this proposal for the following reasons:

1. We understand that the proposed change would require our bank to lower its retained earnings to account for its existing split-dollar arrangements. As you may already know, bank regulations generally permit a bank to hold Bank-Owned Life Insurance (BOLI) in amounts not to exceed 25% of its capital. Lowering retained earnings could cause a bank to exceed that percentage through an immediate drop in total capital, which in turn could invite regulatory criticism. This is blatantly unfair to Davis Trust Company, its shareholders, and its depositors, when current accounting practice is working just fine.

2. Another negative result of the proposed rule change is that we may not be able to accrue for the split-dollar benefit and would therefore have to completely terminate our plan. Some of the negative consequences of this action include: (1) loss of benefits to key personnel. In other words, this change could affect how we attract and retain highly qualified employees; and (2) the proposed rule change could undermine employees' estate planning by reducing life insurance benefits used to pay taxes, etc. What is more, these employees may not be able to replace the lost insurance benefits due to lack of insurability or other factors beyond their control.

3. A third negative result of this proposed rule change is that, if our Board decides to keep our split-dollar arrangements in place, we may have to cut back on benefits to other employees.

4. Finally, in reviewing our benefit plans our external auditors have never suggested that we should accrue for the present value of the death benefit.

We recommend that the FASB not adopt this proposed change in accounting treatment. Instead, we suggest adopting "View B" and support the reasoning behind that proposal. We do not understand how an insurance policy with guaranteed death benefit coverage past mortality age should require an accrual, especially if the split-dollar agreement does not promise a benefit if the policy were to be terminated? **If you adopt the EITF's proposal, we would appreciate an answer to this question.**

Sincerely,

Michael R. Price

President/CEO
Davis Trust Company