

LETTER OF COMMENT NO. 3

July 28, 2006

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:

Prosperity Bank is submitting this comment in regards to the exposed Draft Abstract for EITF Issue No. 06-04, relating to split-dollar accounting.

It has come to our attention that the EITF proposes to require an accrual during an employee's service period for any post-retirement benefit promised under a split-dollar arrangement. Prosperity Bank objects to this proposal for the following reasons:

- 1. Our understanding is that the proposed change would require Prosperity Bank to lower its retained earnings in order to account for its existing split-dollar arrangements. As you are aware, bank regulations generally permit a bank to hold Bank-Owned Life Insurance (BOLI) in amounts not to exceed 25% of its Lowering retained earnings could result in a bank to exceed that percentage through an immediate drop in total capital. This in turn could invite regulatory criticism. Such a result seems unfair to Prosperity Bank, its shareholders, and its depositors, when the prior accounting practice was working just fine.
- 2. The second undesirable result of the proposed rule change is that Prosperity Bank may not be able to accrue for the split-dollar benefit, which would result in terminating the plan altogether. This could have two negative side-effects: (1) loss of benefits to key employees could result in those employees looking for better benefits at other financial institutions. In other words, this change could affect how Prosperity Bank attracts and retains highly qualified employees; and

- (2) the proposed rule change could undermine employees' estate planning by reducing life insurance benefits. These employees may also not be able to replace the lost insurance benefits due to lack of insurability or other factors beyond their control.
- 3. The third undesirable result of this proposed rule change is that, if Prosperity Bank opts to keep its split-dollar arrangements in place, changes may have to be made to other Prosperity Bank employee benefits in order to accrue for these benefits.
- 4. Finally, our accountants have never suggested that we accrue for the present value of the death benefit.

Our suggestion is that the FASB not adopt this proposed change in accounting treatment. We do suggest the adoption of View B and we endorse the proponents of View B. 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 go away. If you should adopt the EITF's proposal, we would appreciate a response to this question.

Sincerely,

<u>/s/Shelly Srubar</u> Shelly Srubar Senior Vice President/Controller

/s/Kim Janise Kim Janise Accounting Officer