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## STEVENS, POWELL & COMPANY, P.A.

August 3, 2006

Mr. Lawrence W. Smith  
Chairman of Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO.

74

Re: EITF Issue 06-4, "Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"

Dear Mr. Smith:

We are responding to the recent tentative conclusion reached by the Emerging Issues Task Force ("EITF") on Issue 06-4, *Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (the "consensus"). We are concerned about the potential impact of the consensus and the misleading accounting that will result, and we encourage the Board not to ratify the EITF's decision.

While we disagree with the consensus for a number of reasons, the more significant differences of opinion follow:

1. We disagree with the tentative conclusion that the benefit obligation is not settled by the underlying life insurance policy in an endorsement split-dollar arrangement. While the policy cash values will vary with market interest rates, the cash value performance does not affect the death benefit portion of the policy that is split to the participant. The policy does not permit charge-backs for adverse mortality experience or provide for dividends from positive mortality experience. We believe the EITF interpretation of settlement is incorrect.

The obligations to the participant in an endorsement split-dollar arrangement are the obligation of the insurance company. The employer is not subject to benefit risk from the carrier, and the cash value asset performance is based on market forces, not employer claims experience related to the split-dollar arrangement. The split-dollar death benefit to the employee's beneficiary will be paid directly by the insurance company when the employee dies. This is an obligation of the insurance company to the employee for the amount of death benefit endorsed under the arrangement. It is not the employer's liability. The employer is not obligated to make any benefit payment under the split-dollar arrangement. It is not logical to record a liability for a benefit that is the obligation of the insurance company under the policy endorsement.

If the EITF has a concern about the inability of the insurance arrangement to settle the obligation of paying the contractual death benefit, then that contingency should be evaluated and measured separately. In the banking industry, we do not assume that every loan needs to be reserved 100% on the unlikely contingency that every borrower will fail to honor their obligation. When securities are pledged against customer repurchase agreements, we do not assume that every security will default.

The notion that the benefit obligation is not settled by the underlying life insurance policy in an endorsement split-dollar arrangement, if applied in other situations, would mean that no insurance contract could be relied

upon to insure against contingent losses or liabilities. This would force all companies to establish self-insurance reserves while paying insurance premiums. If the reasoning in this consensus is applied consistently, the contingent liability (self-insured reserves) would be recorded but the contingent assets from the insurance settlement would be ignored. We do not believe the EITF fully understands the ramifications of this consensus. Do you really want to apply this flawed reasoning to health insurance arrangements and make employers obligated for recording a liability for claims that are the obligation of the insurer?

We believe this split-dollar benefit obligation is as settled as any conceivable arrangement in accounting literature.

2. Requiring the employer to recognize a liability without recognizing the contingent asset (the death benefit) seems to be an inappropriate application of the matching concept. Further, there seems to be a duplication of expense. Through accounting for the policy cash value, the employer recognizes insurance expenses charged against the policy values. After applying the proposed consensus, the employer will also be required to expense the death benefit provided by the insurance coverage. This duplication of expense is totally misleading and misstates the economics of the split-dollar arrangement by overstating expenses.

The EITF's approach requires the immediate accrual of the liability side of the split-dollar transaction without permitting a like recognition of the asset (policy gain) that is the sole source of the benefit being accrued. This mismatch of directly-linked assets and liabilities based on the existing accounting models creates a misleading portrayal of the economics of the split-dollar arrangement on the employer's financial statements. The draft abstract requires recognition of a liability by the employer for the insurance company's contractual obligation to pay a death benefit to the employee's beneficiary under the endorsed insurance contract. Since the obligation to be recorded by the employer is the contingent liability of the insurance carrier, it stands to reason that the employer should also record the contingent gain asset from the insurer because they are one and the same. Recording only half of the transaction is misleading and seriously misstates the substance of the split-dollar arrangement.

If the proposed consensus is ratified, the almost immediate and significant negative impact on regulatory capital of financial institutions should be considered. A longer transition period should be granted to allow the appropriate time to implement plans to overcome the detrimental effect on capital. At a minimum, the effective date should be no earlier than January 1, 2008.

In conclusion, we believe the consensus is flawed and, if ratified, will result in misleading financial statements and an illogical recognition of a contingent liability unless the corresponding death benefit is recorded. This consensus, if ratified without an extended transition period, will place an undue burden on financial institutions to raise additional capital or curtail their ability to make loans. We again urge the Board not to ratify the EITF consensus draft.

Thank you for your consideration of these issues and please call if you have any questions.

Sincerely,

Stevens, Powell & Company, P.A.  
John P. Stevens, CPA  
Stevens, Powell & Company, P.A.