

CHAPMAN & BURRIS CPAs LLC  
CERTIFIED PUBLIC ACCOUNTANTS

STEVEN B. CHAPMAN, CPA

ACCOUNTANTS  
JON F. BURRIS, CPA

SOCIETY OF  
SHAYNA B. CHAPMAN-BURRIS, CPA

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC

OHIO

CERTIFIED PUBLIC ACCOUNTANT

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



LETTER OF COMMENT NO.

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

Dear Mr. Smith:

As a representative of my profession, my clients, and the institutions I serve, I thank you for the opportunity to comment on Emerging Issues Task Force (EITF) Issue No. 06-4, *Accounting for Deferred Compensation and Post retirement Benefit Aspects of Split-Dollar Life Insurance*

Having started with a "big eight" firm many years ago, I later graduated to a smaller public practice closer to my clients in rural Southern Ohio. On busy days I serve as chairman of the board of a small Midwestern university and serve on the board of a regional hospital. Neither is large by national standards, but both are rather important to Southern Ohio. On busier, more complicated days, I attend executive committee meetings and concern myself with Sarbanes-Oxley as chair of the audit committee of a regional bank listed on the NASDAQ. The truly busy days, I devote to my public accounting practice. And, in my spare time, I simply like to listen.

I would like to address the three following concerns created by the recent tentative conclusion: 1) The lack of employer liability and the resultant mismatch of assets and liabilities, 2) the failure to match revenues and expenses within an accounting period, 3) the recognition of a cumulative adjustment to capital as a result of an improper duplication of expense.

First, I sympathize with the EITF in its mission. Understanding the variations of split-dollar arrangements and their nuances obviously is complicated. In an endorsement split-dollar arrangement, an entity purchases and owns a life insurance policy on an officer, other employee or director. These policies contain an endorsement obligating the insurance company to pay the employee's beneficiary a part of the death benefit. The entity has entered into a contract with the insurance company whereby the insurance company agrees to assume the liability. In an endorsement split-dollar arrangement, the employer entity assumes no ultimate liability. Yet, the EITF concluded that the endorsement represents a liability to the employer entity upon signing the contract.

Insurance arrangements exist where the payments are made to an employer entity who then passes a benefit payment to a beneficiary. These are not endorsement split-dollar arrangements. The conclusions reached in the consensus would come closer to fitting these types of arrangements; however, the EITF should still consider the recognition of an offsetting asset to the liability even in these arrangements.

#### The Lack of Employer Liability and Resultant Mismatch of Assets and Liabilities

In an endorsement split-dollar arrangement, the insurance company with whom the employer contracted assumes an obligation to the employee's beneficiary for the amount of the death benefit endorsed under the arrangement. The employer has no liability to pay the employee or the beneficiary.

The draft abstract's proposed guidance appears to treat the benefit obligation as a liability unrelated to the insurance policy asset. They are both contained in the same transaction. How can you elect to recognize one side of the transaction but not the other within the same period?

Obviously it is in the name of "transparency" that the EITF advances this proposal. But, I fear this is a mistake. Have you considered the notion that exhibiting a half truth through a transparency is worse than having no transparency? There is simply no proper matching of assets and liabilities in the EITF's approach.

#### The Failure to Match Revenue and Expenses within an Accounting Period

As proposed, the EITF would require the bank to expense the insurance as paid or expense it as recognized through a difference in values between periods as is acceptable under existing GAAP. According to the proposed consensus the employer would then be required to recognize a liability and corresponding expense for the death benefit provided by the insurance coverage. This is clearly a duplication of expense. Even the EITF consensus recognizes this somewhat because it proposes an offsetting recognition of income in some future period when the beneficiary recovers the benefits upon the death of the insured.

Let's talk theory and GAAP. A proper pronouncement should be consistent with existing GAAP. It is provable in that respect. If there is an apparent mismatch of assets and liabilities produced in the name of transparency and that mismatch produces a proper matching of revenues and expenses within a period, the conclusion may be justified. Or, conversely, if there is an apparent mismatch of revenues and expenses produced in the name of transparency and that mismatch produces a proper matching of assets and liabilities, the conclusion may be justified. The EITF's

proposals are not provable through consistency with existing GAAP. Again, I fear this is a mistake.

#### The Recognition of a Cumulative Adjustment to Capital

The EITF's proposed consensus would require the bank to record a cumulative adjustment to capital by the beginning of calendar year 2007. There are two points to consider with this position. First, in the name of transparency, the bank will recognize a duplicate expense and take an immediate reduction to capital (this could have a significant negative effect on the banks capital ratio). The shareholders reading the financials will see a reduction in capital. With or without a note to the financials, most shareholders will not consider the fact that income will be recognized in a future period to offset that capital reduction. Shareholders will likely focus on the capital reduction and as a result could be enticed to sell their stock. The same proposal intended to promote transparency now becomes deceptive. Once again, I fear this is a mistake.

Secondly, depending upon the specific plan provisions, the negative impact on capital could be eliminated or greatly reduced if affected banks have adequate time to carefully evaluate the impact and take corrective action prior to the proposed implementation date. The proposed general implementation date of January 1, 2007, should be extended for approximately one year.

#### Conclusion

In arriving at the current consensus, the EITF let the attributes of other split-dollar arrangements influence their perception of an endorsement split-dollar life insurance arrangement. Obviously there is an orange in the basket of apples. The shareholders own a company with an orange. Please, don't confuse them.

I appreciate the opportunity to comment on this issue with the Emerging Issues Task Force. Thank you for your consideration.

Sincerely,

Steven B. Chapman CPA