

**FIRST STATE BANCSHARES, INC.**

August 4, 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. 85

Dear Mr. Smith:

We appreciate the opportunity to comment on Emerging Issues Task Force (EITF) Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."

We have numerous concerns with the proposal and generally believe it does not make good accounting sense. Below is a summary of our concerns.

- The employer does not have an obligation to pay any benefit, under any circumstances, to the employee or their beneficiary.
- It is hard to see how misrepresenting the actual transaction by recording a liability that will never be paid by the bank can do anything but mislead the users of the financial statements.
- The abstract incorrectly states that in some endorsement split-dollar plans all insurance proceeds are paid to the employer who passes on a benefit payment to the employee's beneficiary. The conclusions reached on the consensus would be appropriate for a plan in which the employer is responsible for making a payment upon the death of the employee, but this is not the situation in an endorsement split-dollar arrangement. This inaccurate premise naturally leads to an incorrect conclusion.
- 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. We believe the obligation is as settled as any conceivable arrangement in accounting literature.
- 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.

- We request that the EITF consider and offer guidance as to the proper income tax accounting treatment that should be accorded the benefit liabilities accrued under the proposed guidance if it is ratified. The tax accounting treatment is unclear since the guidance is requiring the employer to accrue a benefit obligation that will be paid by a life insurance policy. Is the tax accounting assumption that the employer would make a tax-deductible payment or is the assumption that the employer will make no benefit payment?
- The draft abstract requires the accrual of an imaginary liability, which apparently would be reversed upon the death of the employee and payment of the benefit by the insurance company. Should the employer likewise include imaginary insurance proceeds and benefit payments in the cash flow statement? If the draft abstract is ratified, we request guidance as to the proper presentation in the cash flow statement.
- We fail to understand the logic of the proposed consensus. 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.

In summary, we see no reason for a company to record a liability for something they will never have to pay. We urge the EITF to vote against ratification of the draft abstract.

Once again thank you for considering our comments.

Sincerely,

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President & CEO  
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