ICBA INDEPEN

INDEPENDENT COMMUNITY BANKERS of AMERICA

August 4, 2006

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

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LETTER OF COMMENT NO.

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TERRY I TORDE

Socretary DAVID E. HAYES

JAMES P. GHIGLIERI, JR.

CYNTHIA BLANKENSHIP Vice Chairman KEN PARSONS, SR. Treasurer ROBERT C. FRICKE

Inmediate Past Chanman

CAMDEN R. FINE President and CEO

File Reference No. EITF 0604

Dear Mr. Smith:

The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on the Draft Abstract for EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." Many community banks have endorsement split-dollar arrangements that provide pre- and post-retirement benefits to employees.

ICBA strongly disagrees with the proposed draft abstract as we do not believe that it truly reflects the nature of the arrangements. Rather, it misconstrues the financial aspects of the transaction and infers an obligation that does not exist, providing misleading information to financial statement users.

Split-Dollar Arrangements

In a split-dollar arrangement the employer endorses a portion of the death benefit to the employee (or their designated beneficiary). Upon the death of the employee, the employee's beneficiary receives the designated portion of the death benefit and the

With nearly 5,000 members, representing more than 18,000 locations nationwide and employing over 265,000 Americans, ICBA members hold more than \$876 billion in assets \$692 billion in deposits, and more than \$589 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

¹ The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

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employer receives the remainder of the death benefit. The beneficiary's proceeds are received directly from the insurance company.

The Issue is limited to the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Thus it would not apply to a split-dollar life insurance arrangement that provides a specified benefit to an employee that is limited to the employee's active service period with an employer.

Basis for Issue

The EITF has concluded that for a split-dollar life insurance arrangement for the purposes of this Issue, an employer should recognize a liability for future benefits in accordance with Statement 106 or Opinion 12, based on the substantive agreement with the employee. (Upon the death of the insured participant, the employer would take the accrued liability back into income.) The EITF believed that a liability for the benefit obligation under Statement 106 or Opinion 12 has not been settled through the purchase of an endorsement type policy. It did not believe that the purchase of an endorsement type policy constitutes a settlement since the policy does not qualify as non-participating because the policy holders are subject to the favorable and unfavorable experience of the insurance company.

ICBA's Concerns

It is our understanding that an employer does not make payments to beneficiaries and is never obligated to backup or guarantee a death benefit in the type of endorsement split-dollar arrangements community banks typically enter into. While policy cash values will be affected by certain changes in interest rates, the death benefit will not change. The split dollar arrangement is between the employer and the insurance company and specifies the terms of the split dollar arrangement, including the portion of the policy death benefit endorsed to the employee's beneficiary. The arrangement does not contain any provision obligating the employer to pay a death benefit, thus there should be no need for the employer to recognize a liability, as proposed, for an obligation it does not have. We urge the EITF and FASB to consult with insurance companies that provide this type of coverage to gain a full understanding of the technical aspects of this type of insurance product.

While in the long-run, the liability would in essence be reversed, in the short-run, we believe that a number of community banks would be forced to take a large and unnecessary charge against earnings. Also, as a result of the Issue, the employer would record both the cost of the insurance coverage and the death benefit provided—a duplication of expense. We do not believe that the proposed accounting treatment truly recognizes the nature of the insurance policy and thus would provide inaccurate information to financial statement users and potentially subject banks to inappropriate regulatory action.

Tax Treatment Unclear

The proposed accounting change raises the issue of proper accounting for income taxes. Since the employer would accrue a liability as if it were going to pay a benefit, the

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question is raised as to whether a deferred income tax asset should be recorded. According to FAS 109, Accounting for Income Taxes, an accrued benefit liability would typically result in an income tax deduction, but the liability accrued in applying the proposed accounting treatment will not actually be paid by the employer and no deduction would be taken. Should this Issue go forward, we ask that the EITF provide guidance on the proper tax accounting treatment for the transaction.

Delayed Implementation Urged

The consensus of the EITF is that the Issue should be effective for fiscal years beginning after December 15, 2006. We urge that, should the Issue go forward, the implementation date be changed to fiscal years beginning after December 15, 2007. Community banks will need this longer period to review their arrangements and determine if they want to continue them or abandon them. Should they wish to retain them, the accounting change could have a material affect on their income and regulatory capital position. Thus, they would need time to prepare for it so as not to face regulatory action for an accounting change.

Summary

ICBA urges the EITF not to go forward with EITF Issue 06-4 as we do not believe that it truly reflects the nature of endorsement split-dollar arrangements often used by community banks and would result in inaccurate financial statement information.

We appreciate the opportunity to comment. If you wish to discuss our views further, please contact the undersigned at 800-659-8111 or ann.grochala@icba.org.

Sincerely,

Ann M. Grochala

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Director, Lending and Accounting Policy