CITIZENS NATIONAL BANK OF SPRINGFIELD

August 2, 2006

LETTER OF COMMENT NO. 4/A

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

Dear Mr. Smith,

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

For your reference I am Executive Vice President of an approximately \$300 million community bank in Missouri. I have 26 years banking experience and have an Accounting degree with prior work at a CPA firm before I began my career in banking. Consequently I feel like I am somewhat qualified to speak on this issue. As an accounting professional I am always interested in some of the great lengths our profession goes to in order to get things right from a "theoretically" correct standpoint. My experience is that many times this results in practical applications that don't make a lot of sense in the real world. I believe this is the case relative to the proposed accounting treatment for the Split-Dollar Life Insurance Arrangements.

I'm sure you will receive many comment letters regarding this issue and I believe the EITF has a flawed approach primarily from a basic accounting standpoint. While I don't profess to be an expert regarding all the arrangements in the marketplace I can speak to the policies our bank has for three of our executives, which also includes me and will potentially affect me significantly. I want to cover just a few basic points as I see them relative to the draft:

Recording the benefit as a liability – This requirement is the issue that I would take greatest exception to. Generally Accepted Accounting Principles (GAAP) obviously requires the recording or accruing of a liability where an obligation exists, but the benefit under a split-dollar endorsement is made directly to the employee's beneficiary by the life insurance carrier at the time of the employee's death. In our case the bank has no obligation to pay a benefit under the agreement. The benefit is clearly an obligation of the insurance company and is not, nor will it ever be, the bank's liability. This requirement would be asking the bank to record a liability on its books that are the obligation of another company quite honestly from an accounting perspective this is completely inappropriate.

- Incorrect Assumptions The abstract describes a typical endorsement split-dollar arrangement as including situations in which the insurance company will pay the entire death benefit to the employer and then the employer will pay a benefit to the employee's beneficiary. This assumption is simply not correct as the policy endorsement imparts a legal obligation for the insurance company to pay the benefit directly to the employee's beneficiary. The proposed consensus is based on a flawed understanding of an endorsement split dollar arrangement and I believe the EITF should, at a minimum, vote against ratification until the underlying arrangement is fully understood.
- Misleading Result Since the death benefit is paid directly to the beneficiary by the insurance carrier, recording a liability for a benefit that will never be paid is misleading. Any reader of our financial statements should conclude that any liability will be paid out of future cash flow when, in fact, the bank will never make or have an obligation to make, a payment under the arrangement. The liability required under the proposed guidance presents a misleading picture of the bank's financial position and is inconsistent with the terms of the actual transaction.
- Impact on Bank Capital This proposed change will require banks with postretirement endorsement split dollar arrangements to record a cumulative adjustment to capital as of the beginning of calendar year 2007. In our situation, we have three executives under our split dollar arrangement and the reduction in capital will certainly have a significant negative impact on our capital ratio. In all likelihood, the impact will be significant enough that these post retirement benefits will most probably be terminated. To lose a benefit simply because of a flawed accounting proposal is a little difficult to understand and swallow. In addition, as a growing bank attempting to meet the credit needs of our community, adequate capital is always an issue with bank regulators and any "accounting" adjustment to capital negatively affects our ability to compete in the marketplace. I am aware that come comments have requested an extension to the time frame for capital adjustments, but I would argue that this relates back to the recording of a liability that does not exist and therefore should not be required period, just as recording the liability is inappropriate.
- Settlement The draft abstract asserts that an employer's obligation to deliver a postretirement benefit arises out of an endorsement split dollar arrangement and concludes that the employer's liability is not effectively settled by the underlying life insurance policy. Settlement, in accounting terms, requires that the transaction (policy purchase) is permanent, relieves the employer of primary responsibility and eliminates significant risks for the employer related to the assets used to effect the settlement. The obligations to the participant in an endorsement split dollar arrangement are the obligation of the insurance company.

We believe this obligation is as settled as any conceivable arrangement in accounting literature.

There are several other issues that arise out of this proposal including deferred tax treatment, cash flow statement presentation, asset/liability mismatches and ones I'm sure others will address. But I believe the EITF must focus on two things — understanding the structure of these arrangements and practical application of a theoretical approach to an issue. I believe if you look at the issue from this perspective, it will become obvious that this proposal **should not** be ratified.

Sometimes we as the "bean counters" of the world have to back up a little bit, set aside all the theory and just apply some common sense to the accounting rules to determine what is accurate and fairly presents the underlying financial situation. I would encourage you to take this approach and I believe you will make the right decision. If not, the actions of the EITF will have a negative effect on banks and individuals involved in this issue.

Thank you for hearing my concerns on this matter and for your serious consideration of my comments.

Sincerely,

David L. McBeath, Executive Vice President Citizens National Bank of Springfield Springfield, Missouri