

August 4, 2006

A F J J F Q A Q A A A

LETTER OF COMMENT NO.

83

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

Re: EITF Issue 06-04 "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 EITF on Issue 06-04, Accounting for Deferred Compensation and Post Retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. We are thankful that we do have opportunity to voice our comments however we are extremely concerned about the impact that the misleading accounting will have on our financial statements. We urge the EITF to vote against finalizing as is, the proposed draft abstract when they meet on September 6 & 7<sup>th</sup>.

Major concerns that we want to share with you are: (1) the issue of employer liability, (2) misleading financial results, (3) impact on bank capital and (4) mismatch of assets and liabilities.

# No Employer Liability

The EITF concluded that the endorsement represents a liability to the policy holder. The bank is not obligated to make any benefit payment under 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. It makes no sense to record a liability for a benefit that is the obligation of the insurance company.

### Misleading Financial Results

It is hard to see how recording a liability that will never be paid by the bank can do anything but mislead the readers of the financial statements. The insurance company obviously would have the liability on its books. Why would the bank record the same liability on its books for something it will never pay?

## Impact on Bank Capital

The change in accounting required under the proposed consensus will require banks to record a cumulative adjustment to capital as of January 1, 2007. The short interval between the EITF's final decision and implementation of the proposed guidance is inadequate for us to thoughtfully evaluate its negative impact on capital and to take steps to maintain adequate capital for regulatory purposes. We have always been a well capitalized bank and intend to continue being classified well capitalized however the proposed will impair that position, requiring additional capital planning considerations. Should the EITF vote to finalize the proposed guidance, the implementation date should be delayed to fiscal years beginning after December 15, 2007 versus the proposed December 15, 2006.

### Mismatch of Assets and Liabilities

The proposed guidance requires banks to recognize a liability 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 company, it is only logical 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.

#### Conclusion

Additional concerns we have which we chose not to elaborate on are income tax accounting issues, duplication of expenses and cash flow presentation issues. We believe that in order to properly address the accounting issues, more research should be conducted by the EITF and FASB to ensure the proper accounting Endorsement Split-Dollar policies.

We thank you for your consideration of these issues.

Sincerely,

James L. Haarer Sr. VP & CFO