## PARK NATIONAL CORPORATION

July 26, 2006

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 Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."

Dear Mr. Smith:

I am the Chief Financial Officer of Park National Corporation ("Park") of Newark, Ohio. Park is a multi-bank holding company with approximately \$5.4 billion in assets and a market capitalization of about \$1.4 billion. Park owns \$111 million of bank owned life insurance. Most of Park's bank owned life insurance has the endorsement split-dollar life insurance arrangements. The life insurance policies are owned and controlled by Park. The life insurance policies were purchased to provide a pre- and postretirement benefit for Park's senior officers and directors. Park has entered into a separate agreement that splits the policy benefits between Park and the employee or director. To effect the split dollar arrangement, Park endorses a portion of the death benefits to the beneficiary designated by the employee or director. The benefit that can be paid to the beneficiary is the lesser of the targeted death benefit or the "net amount at risk" of the insurance policy. The "net amount at risk" is the difference between the total death benefit on the policy and Park's cash surrender value on the policy. Upon the death of the employee or director, the insurance company pays the beneficiary the targeted death benefit after paying Park the current cash surrender value on the life insurance policy. If the total death benefit from the policy exceeds Park's current cash surrender value and the targeted death benefit to the beneficiary, then the excess payment goes to Park. However, if the total death benefit from the policy is less than Park's current cash surrender value and the targeted death benefit to the beneficiary, then the targeted death benefit to the beneficiary is reduced.

I believe that the terms that I have described above are very common in bank owned life insurance that have the endorsement split-dollar arrangement. The Company is <u>not at risk</u> for a liability. As a result, I do not believe that it is logical to require companies to establish a liability on their balance sheet for this targeted death benefit. This liability will simply be reversed upon the death of the employee as the insurance company is responsible for this payment. The impact on Park's income statement would be "silly". Why should Park be recording a large amount of revenue related to the death of retired employees or directors. This does not make any sense to me.

I do agree that we should carry a liability on our balance sheet related to this postretirement benefit, but not for the targeted death benefit. The liability should be for the cost of providing life insurance to the retirees.

We should reduce this liability over the remaining expected life of the retirees and as a result increase the return on the life insurance policies. The liability should be built up over the working years of the employee and then reduced in retirement.

I also would like for the EITF to further review the accounting for life insurance. I think it would be beneficial to show the "insurance cost" and the return on insurance policies on a gross basis and not a net basis. The reader of our financial statements has no appreciation for the cost of this benefit, because it is not shown on a gross basis. At Park, we provide group term life insurance coverage for all of our employees except for the senior officers. This benefit expense is included in salaries and employee benefits expense on our financial statements. The senior officers and directors are provided split-dollar life insurance coverage that is on a permanent basis if they retire from Park. Our investment in bank owned life insurance is shown on the balance sheet at its current cash surrender value. An increase in the cash surrender value is recognized through the income statement. In reality, I believe a better presentation would be to gross up the revenue pertaining to the increase in the cash surrender value of the life insurance policy and record the life insurance expense pertaining to the targeted death benefit to be paid to the beneficiary designated by the employee.

Please take another look at the accounting for endorsement split-dollar life insurance arrangement. I agree that this accounting should be improved, but totally disagree with recording a liability for a payment that will be made from the proceeds from the life insurance policy. The reversal of this liability will produce large and sudden amounts of revenue for no logical or economic reason.

In our situation, if EITF Issue 06-4 is passed as planned, we may need to book a liability on January 1, 2007 of \$30 million and charge capital at the date of adoption. This "liability" will reverse over the coming years (upon the death of the retirees) and provide \$30 million of earnings. Again, this <u>can not</u> be the right answer. I urge you to consider my earlier suggestion.

Thank you for your consideration. Please call me if you have any questions about my letter at (740)-349-3792.

Sincerely,

John W. Kozak CFO