

CITIZENS NATIONAL BANK OF SPRINGFIELD

3212 S. Glenstone
Springfield, Mo 65804

July 31, 2006



LETTER OF COMMENT NO. 41

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*.

I have been in the business of banking for almost 31 years and am President of a \$290,000,000 community bank in out state Missouri. I have had many opportunities to comment on various banking issues through the years but have been reluctant to do so because I have always felt that, ultimately, the right and fair result would be accomplished without my comment. This situation is quite different since it will dramatically affect my retirement years, which are now less than 10 years away. I am, therefore, compelled to comment.

No doubt you have already heard the many talking points of this issue but I will attempt to give my perspective on them as well.

- No Employer Liability 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. The employer 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.
- 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 expect and 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.
- 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 we believe the EITF should, at a minimum, vote against ratification until the underlying arrangement is fully understood.

- 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. Many other community bank executives will likely face the same scenario.
- 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.

If passed in its present form, there are several other issues that will need to be addressed, i.e. asset/liability mismatches, income tax accounting, cash flow statement presentation and duplication of expenses. However, for the purposes of this letter, I wish to reiterate the obvious unfairness of accruing for a liability that never has a chance of being paid out. In closing, I wish to appeal to your sense of fairness and common sense, as well as a reasonable application of generally accepted accounting principles, in considering this proposal and urge you to vote to not ratify.

Very Truly Yours,

Joseph P. Gaunt, President
Citizens National Bank of Springfield
Springfield, Missouri