

Community Minded.

August 1, 2006

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

RE: EITF Issue No. 06-4

Dear Mr. Smith:



LETTER OF COMMENT NO. 56

I am writing to you regarding the EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," currently under consideration. I appreciate the opportunity to express my opinions on this matter and hope that the board will not proceed with this action. As the president of a commercial bank in a rural area, I have outlined below a few key concerns of how this legislation would negatively impact banks.

- 1. The benefit payment under an endorsement split-dollar arrangement is made directly to the employee's beneficiary by the life insurance carrier at the time of the insured employee's death. The bank is not obligated to make any benefit payment under the split-dollar arrangement. This payment is not the bank's liability, and it is not logical by accounting standards to record a liability for a benefit that is the obligation of the insurance company under the policy endorsement.
- 2. The death benefit gain from the insurance policy upon the employee's death is the sole source of the benefit to be paid to the employee's beneficiary, and this benefit is paid directly to the beneficiary by the insurance carrier with no impact to the employer. The proposed abstract requires recording a liability that is not the liability of the bank. This is not a fair representation of the economics of the transaction. It actually creates an overstatement of the bank's liabilities, resulting in an understatement of actual earnings. This may be negatively viewed by the IRS for income tax purposes, as well as by shareholders for the return on their investment.
- 3. The change in accounting required under the proposed legislation will require banks with postretirement endorsement split-dollar arrangements to record a cumulative adjustment to capital as of the beginning of calendar year 2007. Although our bank is adequately capitalized to handle such a sudden and negative impact to our capital, many

community banks would not be able to do so without placing the banks in financial trouble or negatively affecting the return to their shareholders.

- 4. The liability required under the proposed guidance is only a liability if the contingent asset from the underlying insurance policy is realized when the employee dies. This relationship is not notional; it is absolute. To record the liability conditioned upon and directly settled by realization of a contingent asset without recording the contingent asset itself completely misrepresents the economics of the transaction.
- 5. The draft abstract requires accrual of a benefit as if the employer were going to pay the benefit, which would be treated as a deductible compensation expense for tax purposes. However, with the benefit being paid by the life insurance company directly to the beneficiary as an income tax-free death benefit, the employer will not be able to deduct it for income tax purposes. Under FAS 109, Accounting for Income Taxes, do banks assume the liability actually is a liability and accrue deferred income tax assets, or assume the liability is imaginary and not accrue deferred income tax assets?

Again, I thank you for giving the opportunity to members of the banking community to express our concerns about this proposed action. I wish to reiterate once more my opposition to this proposal and hope the Emerging Issues Task Force will withdraw its draft abstract. If I can be of further assistance, please do not hesitate to contact me directly.

Sincerely,

Brian D. Esch

President/CEO