

AMERICAN BANK OF THE NORTH

July 31, 2006



LETTER OF COMMENT NO.

47

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

Dear Mr. Smith:

American Bank of the North appreciates 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*.

We disagree with the tentative conclusion reached as explained in the paragraphs below. If the proposed conclusion is finalized, we believe additional time should be given for implementation and additional guidance, in areas expressed below, should be given regarding its implementation.

First of all, it does not seem correct that the proposal requires recording a liability that is not the liability of our bank and this financial presentation is not a fair representation of the economics of the transaction. The split-dollar death benefit to our employee's beneficiary will be paid directly by the insurance company when the employee dies. This is an obligation of the insurance company to our employee for the amount of death benefit endorsed under the arrangement. We have not entered into any agreement that obligates us to pay a death benefit even if the policy is cancelled or otherwise disposed of, therefore, it is not the bank's liability.

The draft abstract incorrectly states that in some endorsement split-dollar plans all insurance proceeds are paid to the employer who then passes on a benefit payment to their employee's beneficiary. The conclusions reached on the consensus would be appropriate for a plan in which the employer is responsible for making a payment upon the death of their employee, but this is not the situation in our endorsement split-dollar arrangement. We believe the EITF should vote against ratification until the underlying endorsement split-dollar arrangement is fully understood.

We also disagree with the tentative conclusion that the benefit obligation is not settled by the underlying life insurance policy in an endorsement split-dollar arrangement. While our policy cash values will vary with market interest rates, the cash value performance does not affect the death benefit portion of the policy that is split to the participant. We believe the EITF has interpreted settlement incorrectly and urge them to reject the draft abstract.

The proposed guidance in the draft abstract also appears to treat the benefit obligation as unrelated to the insurance policy. This is not consistent with the facts in our endorsement split-dollar arrangement. The splitting of the policy proceeds under our arrangement is the benefit.

Without the split of the policy death benefit there is no benefit paid to our employee's beneficiary. We believe it is not a fair presentation of the transaction to require accrual of a liability and not a concurrent recognition of the contingent gain asset, without which the benefit liability can not exist.

We are in addition unclear how to treat the transaction on our cash flow statement when our insured employee dies. Should it be ignored on our cash flow statement or should it be shown as life insurance proceeds and a benefit payment, even though the insurance payment will be made by the insurance carrier directly to our employee's beneficiary?

Through our current accounting for the policy cash value we recognize insurance expenses and charge them against the policy values. After applying the proposed consensus we will also be required to expense the death benefit provided by the insurance coverage. This duplication of expense is misleading and again misstates the economics of our split-dollar arrangement by overstating expenses.

Lastly, the implementation date for most banks of January 1, 2007, does not afford us sufficient time to analyze the impact of the proposed guidance on our regulatory capital and make appropriate adjustments if necessary. We request that if the proposed guidance is ratified by the EITF that the implementation be delayed until fiscal years beginning after December 15, 2007.

American Bank of the North appreciates your consideration of our thoughts on this issue. Thank you.

Sincerely,

Michele Lindhorst, CPA (inactive)
Controller