

September 6, 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

Re: COMMENT REGARDING ISSUE SUMMARY NO. 1, SUPPLEMENT NO. 2
*EITF Issue 06-4, "Accounting for Deferred Compensation and Postretirement Benefit
Aspects of Endorsement Split-Dollar Life Insurance Arrangements"*

Dear Mr. Smith:

This letter is a follow-up to my earlier letter, "Request for Accounting Guidance," dated July 28, 2006. Specifically, I have concerns regarding the information published in Summary No. 1, Supplement No. 2 for Issue No. 06-4. I believe the fundamental fact set should be clarified and re-emphasized in any further discussion on this issue.

- The employer acquires a life insurance policy on the life of an employee.
- The employer and employee enter a mutual agreement whereby the employer reserves all rights to the policy, including recognition and retention of all policy asset value.
- Through a policy endorsement, the employee may designate a beneficiary to all or some of the policy's **net death proceeds**. ("Net death proceeds" are the total policy death proceeds LESS recognized asset value.)
- The employer is under no obligation to maintain the policy and is under no obligation to compensate the employee if the policy and/or agreement are terminated.

I believe there is considerable room for debate whether or not the contractual arrangement described above represents an obligation on the part of the employer. However, if EITF determines that employer liability should be recognized per CON 6, paragraph 35, et. al., then a receivable should likewise be recognized per CON 6, paragraph 25, et. al. Under the contractual arrangement described above, 100 percent of any liability will reversed as nontaxable income. Failure to recognize liability without a corresponding receivable would represent a potentially material distortion in the present value of the employer.

A concurring view that would also recognize liability has been added. This view suggests liability is represented in "cost of insurance" charges that may be incurred after the employee's active service. "Cost of insurance" charges are reductions to policy equity value and are used to

Mr. Lawrence W. Smith
Re: SUMMARY NO. 1, SUPPLEMENT NO. 2 (EITF Issue 06-04)
September 6, 2006
Page 2

effectively reduce/offset the stated interest crediting rate. The term “cost of insurance” is not universally applied to all life insurance contracts, and may have differing meanings either by literal definition or merely in application between policy providers. The fact that they are not universally applied may further distort liability determination. This may also provide a favorable circumstance to any policy structured without such charges. As such, IF the EITF provides further consideration to determining liability based on “cost of insurance” charges, additional consideration and/or guidance should be provided to ensure consistent application.

There is another issue pertaining to liability determined through “cost of insurance” charges. In practice, many life insurance policies are acquired for investment purposes. Sometimes a split-dollar component is included in consideration of the employee’s consent to be insured. Often the amount of benefit under such arrangements is considerably less than the net death proceeds for which “cost of insurance” charges are applied. IF the EITF provides further consideration to determining liability based on “cost of insurance” charges, the EITF may also consider applying any such liability on a prorated basis.

I feel compelled to state that I am disappointed in the preceding EITF discussion on this issue. There has been considerable dialogue on a variety of points that seemingly do not apply to the fact set in question, or seem to represent various biases that do not consider the intent under which GAAP exists. From a novice perspective—perhaps shared by many of the 117 (out of 119) respondents who disagreed with the EITF’s tentative conclusion—the true “liability” associated with this basic arrangement is the “opportunity cost” in the employer’s ability to receive ALL policy death proceeds. Until FASB modifies Technical Bulletin 85-4 so as to recognize asset value in excess of current cash surrender value, I would suggest that attempting to recognize another form of liability under such an arrangement is contrary to determining the appropriate present value of the employer. While it is most certainly possible that technical application of the existing standards disagrees with my perspective, it seems entirely inappropriate to reserve potentially material amounts of liability without consideration that any such amount will be completely reversed as nontaxable income—as if no liability truly existed—some time in the future.

I appreciate your consideration of this letter. Please feel free to contact me if you would like to discuss this matter further.

Sincerely,

Jeff Prescher
3102 Bavaria Hills Trail
Chaska, MN 55318
(612) 209-4758