

Letter of Comment No: 19
File Reference: FSPAAGINVA
Date Received:

September 19, 2005

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
Via email: lwsmith@fasb.org/director@fasb.org

Re: File Reference FSP AAG INV-a, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide*

Dear Mr. Smith:

Alliance Capital has been actively following this issue primarily through our membership in the SVIA and would like to submit the following comments. Alliance Capital (and Sanford C. Bernstein & Co. Inc., which it acquired in 2000) has been managing institutional stable value funds (on a separate account basis) since 1993. Since Alliance Capital does not directly manage any stable value pooled funds (Note: we are a sub advisor for 1 fund), our comments on the FSP are primarily directed at the FSP's implications for SOP 94-4.

For additional background, Sanford C. Bernstein & Co. Inc. was responsible for significant industry leading research into the benefits and implementation of wrapper bond portfolios for stable value funds. This research included extensive modeling of crediting rate behavior of stable value in response to interest rate changes and cash flow shocks.

In general, we agree with the vast majority of the comments submitted by SVIA in response to the FSP. However, we want to highlight a few items in the attached document for your consideration. Please see the attachment for the details.

We appreciate the opportunity to comment. If you have any questions regarding our comments or would like to discuss them please contact me at 212-969-1316.

Sincerely,

Greg Wilensky
Director, Stable Value Investments

Attachment

Item 1 - Section 11g. (and the corresponding changes to paragraph .15 of SOP 94-4)

11. Investment companies subject to this FSP should disclose the following in connection with fully benefit-responsive investment contracts, in the aggregate:

- g. A description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the fund.

Comment

We believe the purpose of the adding the suggested disclosure is to provide financial statement users with information about when an investment contracts' benefit responsive feature might no longer be available to the stable value fund exposing participant to potential loss or volatility. However, the current drafting of Paragraph g. would also require disclosure of the "extended termination" provision that exists in almost all wrapper contracts. This type of termination provision (which can typically be invoked by either the fund or the issuer) winds the contract down over an "extended" period of time designed to bring market value and book value together. Since this does not result in a loss or even the loss of benefit responsiveness, we believe that including a description of this event/provision would not provide incremental value to the financial statement users. In fact, its inclusion could be unnecessarily confusing.

We recommend changing 11g to limit the disclosure to "immediate" termination provisions or terminations that result in the elimination of the "benefit responsiveness" of the investment contract.

Question

This issue is covered in section 11 of the FSP which states that it applies to "Investment companies subject to this FSP" not section 10 which applies to all stable value funds. However, the change shows up in the amended 94-4. Should this section be moved under section 10 or eliminated from 94-4?

Item 2 - Average Yield Disclosure

In paragraph 11(c) (and the corresponding change SOP 94 paragraph .15 b), the FSP requires the following disclosure:

11c - The average yield earned by the fund (irrespective of the interest rate credited to participants in the fund) for each period for which a balance sheet is presented.

94-4 amendment - The average yield earned by the plan (irrespective of the interest rate credited to participants in the plan) for each period for which a statement of net assets available for benefits is presented.

Comment

After comparing this to the original 94-4 language, we are not clear about the disclosure FASB would like to see, given the addition of “earned by the plan (irrespective of the interest rate credited to participants in the plan).”

Does FASB want the fund/plan to disclose the spot “yield of the underlying assets (based on the market value) as of the balance sheet date”? Alternatively, are you looking for the “return earned (on a market value basis) over the periods” covered by the financial statements as a comparison to the “average historical interest rate credited to participants”?

Question

This issue is covered in section 11 of the FSP which states that it applies to “Investment companies subject to this FSP” not section 10 which applies to all stable value funds. However, the change shows up in the amended 94-4. Should this section be moved under section 10 or eliminated from 94-4?

Item 3 – Description of Stable Value contained in Background section 3

While Alliance Capital fully supports the SVIA comments that this section should be drafted to include all investments (both now and in the future) so long as they meet the basic criteria for full benefit responsiveness as prescribed by the FSP, we feel the proposed language is too “GIC” centric. The average allocation to GICs/BICs is less than 15% according to a recent survey. Wrapped bonds make up majority of stable value assets. We recommend that this section of the FSP be changed to reflect this allocation.

We offer the following as a starting point:

Some employer-sponsored defined-contribution plans offer an investment alternative often referred to as a stable value fund. These funds primarily invest in a variety of investment contracts. These investment contracts take the form of wrapped assets, guaranteed investment contracts (GICs), bank investment contracts (BICs), and other investment products with similar characteristics.

With wrapped assets (also known as synthetic GICs), the underlying assets are owned by the fund or otherwise maintained separate from the contract issuer’s general assets (which avoids the assets being subject to creditor claims). The fund purchases a wrapper contract from a bank, insurance company or other financial services institution, where the issuer of the wrapper contract is obligated to provide an interest rate not less than zero.

GICs, issued by insurance companies and other financial services institutions, and BICs are supported by the contract issuer's general assets or by one or more designated assets. The contract issuer is obligated to repay the principal and specified interest guaranteed to the fund.

All of these different investment contracts typically provide that realized and unrealized gains and losses on the underlying assets are not reflected immediately in the net assets of the fund, but rather are amortized, usually over the time to maturity or the duration of the underlying investments, through adjustments to the

future interest crediting rate. For purposes of this FSP, the term investment contract refers to a wrapper contract together with the underlying wrapped portfolio of individual investments, GIC or a BIC.

Item 4 – Section 13 Grandfathering Non-Defined Contribution Plan Assets in Investment Companies

While we do not manage any stable value investment companies, we believe such funds should be limited to qualified defined contribution plans only.

Stable value investment companies do a fantastic job of providing access to the stable value market for qualified defined contribution plans that are too small to get a separately managed stable value fund. However, the investment company structure can expose these plans to the negative impact of cash flows from other plan participants or plan sponsors in the investment company. This risk on the remaining participants should not be increased by permitting other investor types to make investments. These investors may be more likely to withdraw their money in the event of a sharp rise in interest rates. This would hurt the returns for the remaining participants from plans that cannot terminate their accounts so easily (e.g., possibly because of bundled relationships or participant administration/communication issues).

Grandfathering the existing assets (regardless of their level), rewards the investment companies that “pushed the envelope”. We recommend that the FSP provide an adequate transition period so non qualified defined contribution plan investors can be removed from the investment companies.