

May 29, 2003

Director, TA&I-FSP Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: Proposed FASB Staff Position (FSP) – Treatment of fees paid to decision makers and guarantors in determining expected losses and expected residual returns of a variable interest entity under FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46).

Thank you for the opportunity to comment on the above referenced Proposed FSP. While we support your attempt to clarify certain elements of FIN 46 concerning the computation of expected losses and expected residual returns, we believe the fundamental inconsistent treatment of certain components of the expected residual return formula (i.e. net income and fees paid to decision makers and guarantors) will ultimately result in inappropriate entities consolidating variable interest entities in which they do not have a right to a majority of the expected residual returns. Our specific observations about the Proposed FSP are as follows:

FIN 46, paragraph 8 describes the concept of expected losses and expected residual returns to be used in the variable interest consolidation model as follows:

A variable interest entity's expected losses and expected residual returns shall include (a) the expected variability in the entity's net income or loss, (b) the expected variability in the fair value of the entity's assets (except as explained in paragraph 12) if it is not included in net income or loss, (c) fees to the decision maker (if there is a decision maker), and (d) fees to providers of guarantees of the values of all or substantially all of the entity's assets (including writers of put options and other instruments with similar results) and providers of guarantees that all or substantially all of the entity's liabilities will be paid.

The Proposed FSP indicates that (a) fees paid to decision makers and guarantors should not be included in expected losses as those fees are already deducted in determining the net income or loss of the entity and (b) any fees paid to decision makers and guarantors should be included in the expected residual return formula at their total discounted

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value, rather than their variability, which is the manner in which the net income of the entity is treated in the expected residual return formula.

In connection with the preceding, we believe the clarification concerning the deduction of fees paid to decision makers and guarantors when computing expected losses is appropriate as those fees are a normal component of the entity's net income or loss and should not be accounted for more than once. In contrast, we do not support the proposed treatment of fees paid to decision makers and guarantors when computing expected residual returns. More specifically, it appears inappropriate to evaluate fees paid to decision makers and guarantors at their total discounted value; a manner fundamentally inconsistent with the treatment of the net income of the entity, which is evaluated based on its variability. Moreover, we do not believe the FSP provides any background or theoretical support for disproportionately weighting the fees paid to a decision maker or guarantor in relation to the net income of the entity attributable to equity or other variable interest holders. Absent any theoretical support to the contrary, it would appear reasonable to assume that all returns attributable to a variable interest entity should be weighted equally and analyzed in a consistent manner. We recommend revising the Proposed FSP with respect to the treatment of fees paid to decision makers and guarantors (i.e. including only the variability of those fees in the expected residual return formula) when analyzing the expected residual returns of an entity to help ensure that no variable interest holder without rights to a majority of the variable interest entity's expected residual returns would be required to consolidate the entity.

In addition to the preceding, we also urge the FASB to provide additional guidance on what constitutes a decision maker, thus requiring fees paid to them to be included in the calculation of expected residual returns. We believe it is appropriate if the criteria used to identify a decision maker were consistent with the criteria set forth in paragraphs (5)(b)(1) and 14, which identify the rights that an equity holder, or other party with a controlling financial interest possesses. The rights are described as follows:

Paragraph (5)(b)(1):

A direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights....

Paragraph 14:

A direct or indirect ability to make decisions that significantly affect the results of the activities of a variable interest entity. ...

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We believe the rights described above should also be used to identify a decision maker as it is assumed that a "decision maker" should possess direct or indirect rights that allow it to make decisions about the entity's activities that significantly affect the results of the entity. In contrast, we do not believe a party acting in a servicing capacity to a variable interest entity, with all of its decision making rights tightly circumscribed by legal documents, should inherently be considered a decision maker as it would not necessarily possess the direct or indirect ability to make decisions about the entity's activities that significantly affect the results of the entity. Rather, we believe it would be appropriate to analyze the applicable facts and circumstances in each situation to determine if a party to a variable interest entity meets the designated criteria to be considered a decision maker.

If you would like to discuss the contents of this letter in more detail I can be reached at (847) 402-2213.

Sincerely,

Samuel H. Pilch Controller

The Allstate Corporation

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