



November 21, 2006

Director, TA&I – FSP
401 Merritt 7
Norwalk, Connecticut 06856
United States of America



LETTER OF COMMENT NO. 8

Dear Mr. Director,

The Allstate Corporation (“Allstate”) reviewed the Proposed FASB Staff Position No. FAS 141-b, 142-e, and 144-b, *Fair Value Measurements in Business Combinations and Impairment Tests* (“Proposed FSP”) and would like to share the following observations as it relates to Paragraph 6 of the Proposed FSP which reads as follows:

6. *If a present value technique is used in a fair value measurement under Statements 141, 142, or 144, estimates of future cash flows shall be consistent with the objective of measuring fair value, as defined in those Statements. Therefore, the measurement shall reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Those assumptions shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data. In developing those assumptions, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop its assumptions shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.....*

We understand and support the Board's objective to eliminate certain perceived practice diversity as it relates to fair value measurements completed in connection with business combinations and certain impairment evaluations. At the same time, we believe there is insufficient implementation guidance to accompany the Proposed FSP as it relates to developing “a reporting entity's assumptions about the assumptions that market participants would use in pricing an asset or liability”. More specifically, paragraph 6 indicates that, in developing assumptions...“based on the best information available in the circumstances...the reporting entity need not undertake all possible efforts”...to obtain information about market participant assumptions, but shall not ignore information about market participant assumptions that is...“reasonably available without undue cost and effort”. We are uncertain as to how to interpret the notions of “best information available in the circumstances”, “all possible efforts”, and “reasonably available without undue cost and effort” in the context of availability (i.e. what constitutes “the best information available”), confidentiality (i.e. how confidential information might or should be reasonably obtained and used), third-party data sources (i.e. their “availability”), fair-trade considerations, etc. Our concerns with the Proposed FSP also apply to FASB Statement No. 157, *Fair Value Measurements* (“SFAS 157”), where the same general concepts are introduced without, in our opinion, sufficient interpretive implementation guidance. In the absence of sufficient interpretive implementation guidance, we believe that not only will reporting entities be exposed to higher levels of restatement risk as the provisions are interpreted and reinterpreted by regulatory bodies such as the SEC, but diversity in practice, which was the stated primary goal of the Board to eliminate, may not be eliminated.

We would like to take this opportunity to point out that the dissemination of the Proposed FSP highlights a significant unresolved issue concerning how reporting entities are to reasonably, reliably, and without undue restatement risk, transition from an existing accounting and financial reporting framework that involves estimation practices and procedures that have evolved over a very long period of time (such as those that exist with respect to SFAS 141 and 144) to a new principles-based fair value paradigm (e.g. SFAS 157) that is supported by conceptual theory and little implementation guidance (we believe this is also true as it relates to the Modified Joint Project concerning the accounting for Insurance Contracts). We find this situation particularly troublesome given the evolutionary changes that have occurred in the accounting and financial reporting regulatory environment in recent years, not the least of which was the creation of the Public Company Accounting Oversight Board ("PCAOB") which assumed the prior responsibilities of the American Institute of Certified Public Accountants ("AICPA") as regulator of Audit Firms.

As the system of regulatory oversight has been enhanced over the last few years, one affect has been a significant rise in the number of financial statement restatements. While some of the restatements are attributable to accounting irregularities, a significant number are attributable to literal and/or narrow interpretations of highly complex accounting standards as opposed to principle-based interpretations of those standards. Examples include numerous instances where registrants were required to restate financial statements despite the existence of "good-faith" principle-based interpretations of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133") related to applying the "short-cut method" only to have their judgments over-turned directly by the SEC or indirectly through positions taken by the PCAOB during the course of their audits. With the advent of principle-based fair value standards, which require the estimation of unobservable market prices by registrants and their auditors, neither of which are trained or possess the highly sophisticated judgments, experience and skills necessary to estimate such information, or otherwise have access to a body of market-based information to complete the task, we anticipate an even greater erosion of the reliability, comparability, and understandability of financial statements.

Given the enhanced regulatory environment where literal or more narrow interpretations are frequently enforced, and materiality considerations are given less priority, reporting entities are exposed to higher levels of restatement risk, especially when implementing new principle-based fair value standards (such as SFAS 157) that are not accompanied by sufficiently detailed, implementation guidance supported by clear and unambiguous rules and examples. It is also important to note that it is not just the judgments of registrants that are being questioned and second guessed but also the judgments of Audit Firms when literal, rules-based interpretations evolve that are inconsistent with the intentions of the FASB. For example, as it relates to SFAS 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* ("SFAS 155") specific implementation guidance provided by the Big 4 audit firms was recently overturned by the FASB as it was found to be inconsistent with the spirit and intent of the FASB when developing the guidance. Accordingly, as the authority of Audit Firms to interpret accounting guidance has been substantially narrowed or removed, we believe the FASB, SEC, PCAOB (or other regulatory body) must proactively step in to fill the interpretive void to mitigate the risk that the relevancy of financial statements might otherwise be substantially diminished as a result of more future restatements.

We hope these comments will be of assistance to the Board's in their upcoming discussions. Moreover, in the event you gentlemen, or any Board Members would like clarification of our views we would be happy to explain our positions in more detail.

Sincerely,

The Allstate Corporation

Samuel H. Pilch, Controller and Chief Accounting Officer

Kevin A. Spataro, Head of Accounting Policy and Research