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LETTER OF COMMENT NO. 75

April 20, 2007

Technical Director - File Reference No. 1520-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: Financial Accounting Standards Board ("FASB") Invitation to Comment on Valuation Guidance for Financial Reporting ("ITC")

Dear Technical Director,

The Allstate Corporation appreciates the opportunity to share our thoughts and comments concerning the ITC. In addition, the attached appendix provides more detailed responses to the questions set forth in the ITC.

We believe the issuance of the ITC signals the FASB's recognition that consistency, comparability, and reliability issues will exist in the newly created accounting and financial reporting environment where financial and non-financial assets and liabilities are permitted, or are required, to be measured at fair value, particularly in situations where no active markets exist to which fair value estimates could be calibrated or otherwise verified. Moreover, the current generation of accountants, serving in both financial reporting and audit roles, have not been trained to either produce or audit fair value estimates derived by exceedingly complex, input-sensitive models that require complex inter-related input assumptions, which, as a result of the FASB's three-level hierarchy in FASB Statement No. 157, *Fair Value Measurements* ("FAS 157"), may not be observable or verifiable to any independent market sources.

In addition to financial statement preparers and auditors, the needs of financial statement users must also be considered as they are generally not acquainted with evaluating financial statements prepared on a full fair value basis. They will require considerable external assistance to develop a working knowledge of the issues associated with financial statements prepared under a full fair value framework and to reconcile them with those prepared under the existing mixed-attribute framework. We believe the implementation should proceed in two phases and extend over five years, to provide a full cycle of financial statements for SEC reporting purposes, plus two years of comparative information. We are concerned that any overly ambitious implementation timetable could undermine user's understanding of, and ability to rely on, financial statements which could have a decidedly negative impact on the capital markets.

In our view, the ITC recognizes that in the absence of a market to calibrate or otherwise verify fair value estimates, there is a need to establish a new authoritative source to establish a common set of valuation standards to promote the consistency and comparability of non-verifiable fair value estimates. Notwithstanding the preceding, due to the ever-evolving complexity of many financial and non-financial assets and liabilities as well as the models used to estimate their fair value, we believe the FASB should carefully consider the pace and structure of its migration to full fair

value accounting, giving appropriate consideration to whether the necessary resources and infrastructure exists to facilitate the transformation.

In addition to concerns about the time and effort required to ensure the availability of appropriately trained accounting and auditing personnel, we are also concerned that the required infrastructure (e.g. common valuation standards, software, as well as data and other model input assumptions) will not be in place to facilitate the migration to full fair value accounting and financial reporting. Accordingly, as the FASB moves ahead with its plan towards full fair value accounting and financial reporting, we believe it should consider implementing the changes in two phases. More specifically, the FASB should consider, for assets and liabilities whose fair values would be categorized as FAS 157 Level 2 and 3 measurements, requiring fair value measurements to be initially implemented in the balance sheet, with periodic changes in those fair value measurements initially reported in OCI and subsequently transferred to Net Income only when realized during "Phase I" of the implementation. This would allow the FASB to achieve its objective of furthering the use of fair value as a measurement basis and at the same time, reporting entities, auditors, regulators, financial statement users, and accounting standard setters could more thoroughly assess the consistency, comparability, and reliability of Level 2 and 3 fair value estimates before moving to "Phase II" of the implementation process which would require full fair value accounting with fair value changes reported directly in Net Income. For FAS 157 Level 1 measurements, a single phase implementation would be appropriate.

In conclusion, we caution against moving too ambitiously toward the adoption of a full fair value accounting and reporting framework before all the necessary training and infrastructure needs have been met to support the complexities involved with fair valuing financial and non-financial assets and liabilities that are not actively traded. To assist in the transition we believe the FASB should consider developing comprehensive educational programs aimed at re-training the current generation of accountants involved in accounting, financial reporting, and auditing to provide them with skills necessary to successfully facilitate the transition to full fair value accounting and financial reporting. Without sufficient re-training of the current generation of accountants, coupled with implementing the required physical infrastructure, reporting entities could be overly exposed to financial statement "restatements." As you know, restatements are currently at record levels as a result of errors in applying existing accounting and financial reporting guidance which is considerably less complex than what is envisioned in a move to full fair value accounting and financial reporting.

We thank you for the opportunity to share our thoughts and comments regarding the ITC. Should you have any questions or would like to further discuss the contents of the letter, please contact either Sam Pilch at (847) 402-2213 or Kevin Spataro at (847) 402-0929.

Sincerely,



Samuel H. Pilch

Controller, Chief Accounting Officer
The Allstate Corporation

Copy: Dan Hale, Chief Financial Officer - The Allstate Corporation
Kevin Spataro - The Allstate Corporation

Appendix

Question 1 – Is There a Need for Valuation Guidance Specifically for Financial Reporting?

We believe valuation guidance is necessary as a result of recent FASB decisions which require or otherwise permit the use of fair value as a measurement basis for financial assets and liabilities for which no active markets exist to verify those measurements. Moreover, while the FASB's Fair Value Measurement Standard (i.e. FASB Statement No. 157, *Fair Value Measurements*) defines fair value and establishes a single set of guidance for all fair value measurements, it does not provide detailed guidance on how to perform fair value measurements. Accordingly, without specific interpretive guidance, which we would prefer to be principles as opposed to rules-based, and sufficiently comprehensive implementation examples, the consistency, comparability and ultimate decision-usefulness of financial statements could be impaired by the use of non-verifiable fair value measurements.

Question 1(a) – Should Valuation Guidance Include Conceptual Valuation Guidance, Detailed Implementation Guidance, or a Combination of Both?

Our preference would be for valuation guidance to be conceptual in nature, but at the same time supplemented with sufficiently comprehensive implementation guidance to address situations where fair value measurements are required or otherwise permitted for assets or liabilities for which no markets exist to verify fair value measurements. We believe comprehensive implementation guidance in the situations noted above would aid the consistency and comparability of fair value measurements between reporting entities and thereby promote the decision-usefulness of financial statements.

Question 1(b) – What Should Be the Duration of Any Valuation-Guidance-Setting Activities?

The duration of valuation guidance setting activities should be indefinite as it is presumed that an inventory of valuation issues (both emerging and existing) will exist at all times as a result of the always evolving complexity of both financial and non-financial assets and liabilities.

Question 2 – What Level of Participation Should Existing Appraisal Organizations Have in Establishing Valuation Guidance for Financial Reporting?

We believe that existing appraisal organizations should act primarily in an advisory role in establishing valuation guidance for financial reporting and should not be designated as the principal standard-setter as those organizations were not established and do not have the infrastructure and institutional knowledge to act in a standard-setter capacity.

Question 3 – What Process Should Be Used for Issuing Valuation Guidance for Financial Reporting?

We believe the FASB could issue valuation guidance with the assistance from resource groups for specific issues or with the assistance from an organization structured similar to the FASB's EITF. That said, we would caution against the creation of any organization that might promulgate a body of very prescriptive rules-based guidance which we believe would be inconsistent with FASB's stated desire to move to more principles-based guidance as well as its convergence with principles-based International Financial Reporting Standards. In either situation, it is assumed that external valuation experts as well as financial statement preparers and users would serve in an advisory role (either directly to the FASB or as part of a newly designated sub-group).

Question 4—Should the Process of Valuation Guidance Be on an International or National Level?

As a consequence of fundamental differences in the scope and depth of markets in the United States and abroad, we suggest that initially, the valuation guidance should be focused at a national level, however, consistent with the convergence of US GAAP and IFRS, the long-term goal should be to develop guidance that is suitable for application on an International basis.

Other comments?

As it relates specifically to the valuation of insurance liabilities, we believe the actuarial profession (as generally represented by the Society of Actuaries and Academy of Actuaries), which has historically provided valuation guidance to financial statement preparers, should continue to fill this vital role. More specifically, the actuarial profession has established a comprehensive body of generally accepted actuarial standards and practices that we believe are best suited to estimate or otherwise substantiate the value of insurance liabilities (both life and property and casualty). As a result of their depth of knowledge of this class of liabilities, we believe insurance actuaries should also serve as the principal technical advisors to the FASB as it relates to the valuation of insurance liabilities which, because of their inherent complexities, should be specifically separated from the valuation of other non-insurance liabilities.

Consistent with our introductory comments, we believe that as the Board continues its migration to full fair value accounting and financial reporting, it should recognize that the current generation of accountants, serving both in financial reporting as well as audit roles, were not trained to either produce or audit fair value estimates derived from exceedingly complex, input sensitive models that require complex inter-related inputs that, as a result of the FASB's three-level hierarchy in FAS 157, are often not observable or verifiable to any independent market source. As it relates to the current generation of accountants, we believe the FASB should consider developing educational programs aimed at re-training accountants to provide them with the skills necessary to successfully facilitate the transition to full fair value accounting and financial reporting.

In addition to financial statement preparers and auditors, the Board must consider the needs of financial statement users who typically do not possess the requisite background or skills to evaluate financial statements prepared on a full fair value basis. Accordingly, they will need considerable assistance to reconcile their understanding of financial statements prepared under the existing mixed-attribute framework to those prepared under a full fair value framework. As previously mentioned, we believe the FASB should consider a two-phased implementation approach for assets and liabilities subject to FAS 157 Level 2 and 3 measurements. In Phase I, full fair value accounting and reporting for assets and liabilities subject to Level 2 and 3 measurements would be implemented in the balance sheet only (i.e. periodic changes in fair value estimates would be reported as a component of OCI and only recognized in Net Income when realized). During Phase I, which we anticipate extending over a five-year period, reporting entities, auditors, regulators, financial statement users, and accounting standard setters would have the opportunity to assess the consistency, comparability, and reliability of fair value estimates and consider whether moving to Phase II, whereby full fair value accounting and reporting would be implemented with periodic fair value changes being reported on a current basis through Net Income, is appropriate. We are concerned that any overly ambitious implementation timetable could undermine financial statement user's understanding of, as well as their ability to rely on financial statements, which would have a decidedly negative impact on the capital markets.