Allstate
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October 25, 2012

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB Deliberations: Financial Instruments- Classification & Measurement Tentative Model

Dear Ms. Seidman,

We have closely followed the FASB Board ("Board") deliberations on Financial Instruments. The Allstate Corporation ("Allstate") is the nation's largest publicly held personal lines insurer offering both life insurance and non-life insurance products supported by an investment portfolio of approximately $100 Billion. Allstate is not only a preparer of public financial statements, but also a significant investor in the capital markets. We are interested in two tentative Board decisions involving the Financial Instruments project that we believe could produce significant earnings volatility that may be viewed adversely by investors and could impact insurers' desire to invest in the impacted financial instruments.

Allstate operates two distinct businesses (i.e., a property-casualty insurance business and a life insurance business) each of which has a distinct business model and mix of supporting investments. For the property-casualty ("P&C") business, our investment strategy emphasizes protection of principal and consistent income generation designed to produce long-term competitive returns, maintain financial strength and the ability to pay claims, while maximizing total returns and surplus growth. Given the long-term nature of our P&C strategy, the targeted investment portfolio mix includes an allocation to public equity securities. Public equities comprised approximately 4% of the total investment portfolio at June, 2012. As it relates to our life insurance business, traditional asset-liability management ("ALM") techniques are applied and our business model focuses on the spread between asset yields and liability crediting rates. The targeted life insurance investment portfolio mix includes an allocation to structured securities as their contractual cash flows and yields provide a desirable match for the liabilities they support. At June, 2012, approximately 8% of our total investment portfolio was comprised of structured securities.

The Board's tentative conclusions on its Financial Instruments Classification & Measurement ("C&M") model would require investments in equity securities to be reported at fair value with periodic fair value changes reported in net income ("FV-NI"). In current U.S. GAAP, investments in equity securities are typically classified as available-for-sale and reported at fair value with periodic changes in fair value reported in other comprehensive income ("FV-OCI"). If equity securities are required to be reported at fair value with periodic changes in fair value reported in net income, historically observed equity market volatility would produce future earnings volatility associated with equity securities that may be viewed adversely by investors and thus reduce their desire to invest in our stock or to support capital raising plans that they have traditionally supported in the past.

Given the long-term nature of a typical P&C investment strategy involving equity securities (i.e., P&C insurers do not acquire equity securities with an intent to sell or trade in the short-term), periodic unrealized fair value changes (both positive and negative) should not be reported in net income. Rather, periodic equity market gains and losses should be reported in net income only when realized either from an other-than-temporarily impairment or sale. In the Basis for Conclusions from the May, 2010 Exposure Draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, the Board noted that the only way to realize the value of an equity security is to sell it. Further, the Board noted that only for debt instruments could unrealized gains and losses reverse if the instrument is held to maturity. While the rationale was used to justify reporting equity securities at FV-NI, it could also be used to support a conclusion that short-term unrealized market volatility (both positive and negative) should not be reported in income as it may never be realized. In contrast, if the Board requires that equity securities be reported at FV-NI in its final C&M model, we believe equity securities would become a much less attractive asset class for P&C insurers and the impact on equity markets would be unfavorable. Another potential implication from the tentative Board decision is that, to the extent insurers continue to invest in equity markets, it could result in expanded use of non-GAAP measures to remove from net income the gains and losses that are not realized through sale or other-than-temporary impairment.

Another area within the Financial Instrument project for which we have concern is the recent decision to adopt the IFRS 9, *Financial Instruments*, language related to contractually linked instruments (i.e., structured securities). We prefer the guidance in current U.S. GAAP, Topic 320 in conjunction with ASU 2010-11, *Derivatives and Hedging: Scope Exception Related to Embedded Credit Derivatives*. The proposed IFRS 9 language provides characteristics that must be present to qualify for FV-OCI treatment[1]. The portion of a typical life insurer's structured security investment portfolio that includes tranches below the most senior tranche is significant. Currently, these structured securities are reported as fixed income securities as the contractual payments represent principal and interest and the underlying collateral is primarily loans and debt comprising contractual cash flows from principal and interest. As it is possible that any tranche subordinate to the most senior tranche could experience a percentage loss that is proportionately greater than the loss on the supporting collateral, a significant portion of the structured securities universe may be reported at FV-NI[2]. We do not support the proposal as we do not believe the credit exposure in an underlying pool of collateral should drive the C&M model; rather, the likelihood of credit losses is addressed in the Impairment project.

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[1] One of the characteristics included in IFRS 9 is: "The exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 percent as a result of credit losses and under all circumstances the tranche would lose 50 percent or less).

[2] The magnitude of insurers' securities impacted is estimated to exceed $250 billion.

Structured securities possess the same debt characteristics of a corporate bond in that they contain both contractual principal and interest and thus the loss of principal and/or interest should be addressed in the impairment model and not in the C&M model by requiring all subordinated tranches to be classified at FV-NI. Similar to the discussion above in relation to equity securities; short-term volatility in the fair value of structured securities should not be reflected in net income when it has yet to be realized through the sale of the security or recognition of an other-then-temporary impairment. Should the Board retain the structured security guidance in its final standard, we believe it would reduce insurers' desire to invest in these securities and unfavorably impact the structured security market which relies on the availability of investors in the subordinated tranches.

Throughout the financial crisis, the SEC advocated for expanded disclosures of unrealized gains and losses for investment portfolios, including structured securities, to reveal valuation issues; reassure investors of the appropriateness of impairments taken; and to justify unrealized gains and losses. Once the expanded disclosures were implemented, preparers received very few questions from investors related to unrealized gains and losses on the impacted investments. We believe this supports the effectiveness of the additional disclosures in providing useful information about unrealized gains and losses to investors. Conversely, we do not believe reporting those unrealized gains and losses through net income would be an effective alternative to expanded disclosures during tenuous markets for the reasons already discussed.

Thank you for considering our views with regard to these two important topics in your deliberations. Should you have any questions or wish to discuss any of our comments, please feel free to contact Kevin Spataro at 847-402-2029 or Diane Bellas at 847-402-5732.

Kevin Spataro
Senior Vice President, Accounting Policy
The Allstate Corporation

Diane Bellas
Director, Accounting Policy
The Allstate Corporation