



March 8, 2007

Technical Director File Reference No. 1510-100 401 Merritt 7 Norwalk, Connecticut 06856 United States of America

Dear Mr. Director,

The Allstate Corporation ("Allstate") reviewed the Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No.* 133 ("Proposed ED") and would like to share the following overall observations:

- We generally support most provisions of the Proposed ED.
- The ED requires reporting the location and amount of gains and losses in the statement of financial performance (or when applicable, in the statement of financial position) for derivative instruments and related hedged items held at the end of a reporting period. We believe that all accounting standards requiring fair value disclosures [e.g. FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159") and FASB Statement No. 157, Fair Value Measurements ("SFAS 157")] should conform to these requirements.
- We believe the fair value of all financial assets and liabilities for which fair value is required should be required to be summarized in one financial statement footnote in an effort to provide greater transparency concerning which financial assets and liabilities are being carried at fair value, the impact of periodic changes in fair value, and where those impacts are reported in the financial statements.
- We believe clarification is necessary concerning the disclosure of "contingent" features within individual derivatives as well as their existence within contractual master agreements governing derivative transactions.
- In addition, we believe clarification is necessary concerning the disclosure of instruments that contain leverage factors. More specifically, we are not clear as to the nature of information being sought (i.e. notional amounts, contractual terms, etc.). Moreover, we are unclear as to whether the requirement is designed to include embedded derivatives that are not clearly and closely related to the host contract under FAS 133 paragraph 13b.

Additional comments in response to the issues raised follow:

Scope.

Issue 1: The Board concluded that prescriptive guidance about how derivative instruments should be presented and classified in the financial statements should be excluded from the project's scope. Moreover, including presentation and classification guidance could potentially delay issuing a standard that would significantly improve the transparency about derivative instruments and hedged items. In addition, various presentation and classification issues related to derivatives and

hedged items have an impact on the Board's current project on financial statement presentation and also would need to be addressed in the context of that project.

Do you agree with the Board's decision to exclude from the scope of the Proposed ED, prescriptive guidance about how derivative instruments should be presented and classified in the financial statements? Why or why not?

Response: While additional guidance on how derivative instruments should be presented and classified in the financial statements could ensure better comparability between and within reporting entities, we agree with the Board's conclusion that this would add to the length of this project and potentially jeopardize its timely completion. Furthermore, the Board's adoption of a "principles based approach" to financial statement presentation has allowed reporting entities to classify derivative results consistent with the objective of the program. In contrast, a rules based approach could be restrictive and reduce management's flexibility to report results in the most meaningful way based on the entity's business purposes for individual strategies.

Issue 2: Statement 133 applies to both public and private entities. The requirements in this proposed Statement also would apply to both public and private entities.

Do you agree that this proposed Statement should apply to both public and private entities? Why or why not?

Response: The Proposed ED should apply to both public and private entities. This view considers that Statement 133 applies to both entities together with the fact that consistent information would be helpful to the financial statement users. In addition, because the insurance industry is both a preparer and user of financial statements (i.e. the industry is a significant investor in both public and private entities) consistency of disclosures between public and private entities is desired.

Costs of Implementing the Proposed Statement's Disclosure Requirements

Issue 3: This proposed Statement would require an entity to provide information on derivative instruments (including, but not limited to, notional amounts and fair value amounts), hedged items, and related gains and losses, by primary underlying risk, accounting designation, and purpose in the tabular format shown in Appendix A).

Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed Statement? Are there any alternative formats of presentation that would provide the data more concisely? (See paragraphs B18–B20) for the basis for the Board's conclusions.)

<u>Response</u>: We recommend the tabular presentation (example on page 14) include prior year information for notional (as it would aid the financial statement user in their evaluation of the reporting entities' utilization of derivatives in prior years). In addition, we recommend the addition of sub-totals by hedge type to the disclosures.

We believe disclosing a reporting entity's results by gross derivative positions may be confusing to the financial statement user as the derivative position is a snapshot at the end of the reporting period while the periodic results from derivatives relate to the derivatives held throughout a reporting period (i.e. a particular swap may be in a gross asset position during the majority of the period but in a gross liability position at the end of the reporting period; reporting the income statement results consistent with the end of period liability position may be confusing to financial statement users). We understand the rationale underlying the requirement to report

gross derivative positions, however, as income statement results relate to holdings throughout a reporting period we believe income statement disclosures should be summarized by income statement line item. We believe this would aid the understanding of the financial statement users.

The Proposed ED focuses on disclosing derivatives based on the accounting treatment and risk being hedged, but does not provide detail by instrument types. We recommend the FASB consider requiring a summary schedule by instrument type (swaps, caps, floors, etc.) that reconciles to the other exhibits to aid the understanding of the financial statement user. In addition, a tabular presentation of derivative maturities at the reporting date would give the user the ability to assess the potential immediate and longer term impacts of derivatives.

Issue 4: This proposed Statement would require disclosure of (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses), (b) the aggregate fair value amount of derivative instruments that contain those features, and (c) the aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features.

Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure? (See paragraphs B39–B42) for the basis for the Board's conclusions.)

Response: We believe the Board should provide more clarity around the disclosure requirements for Contingent Features. More specifically, contingent features may reference a component of a derivative as well as a component of a contractual derivative counterparty agreement. A contingent feature of the derivative itself might be, for example, a cap where the receipt of cash is contingent upon an interest rate exceeding a certain threshold. The preceding represents a contingent feature that is a component of the derivative instrument. We would question the value of this type of information. Alternatively, if the Proposed ED is referring to contingent features incorporated into a derivative counterparty agreement (e.g., if the company is downgraded, immediate payment is required), that information would be useful to a financial statement user.

Disclosure of Notional Amounts

Issue 5: This proposed Statement would require disclosure of notional amounts in tables that also will include fair values of derivative instruments by primary underlying risk, accounting designation, and purpose.

Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not? (See paragraphs B21-B25) for the basis for the Board's conclusions.)

Response: We agree with the reasoning the Board stated in B24: "...notional amounts provide insight into the overall volume of derivative use and into the magnitude of risks being managed. For example, the notional amount of an interest rate swap may provide insight into the magnitude of the interest rate risk inherent in the related item being hedged."

Issue 6: This proposed Statement would require disclosure of gains and losses on all derivative instruments that existed during the reporting period regardless of whether those derivatives exist at the end of the reporting period. This proposed Statement would not require disclosure of the aggregate notional amounts related to those derivatives that existed during the reporting period but no longer exist at the end of the reporting period.

Do you agree that this proposed Statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period? Why or why not?

<u>Response</u>: We agree that the Proposed ED should not require disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period as those amounts would appear to be additive and may confuse financial statement users. At each interim reporting period, the current notional amounts outstanding will be disclosed.

Disclosure of Gains and Losses on Hedged Items

Issue 7: This proposed Statement would require disclosure of the gains and losses on hedged items that are in a designated and qualifying hedging relationship under Statement 133. The Board decided that an entity would not be permitted to include information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people.

Do you agree that information about "hedged items" that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables? Alternatively, should the tables include gains and losses on "hedged items" that are recorded at fair value and are used in hedging relationships not designated and qualifying under Statement 133? Why or why not? Would your answer be affected by the forthcoming FASB Statement on the fair value option for financial assets and financial liabilities, which will provide the option to report certain financial assets and liabilities at fair value? (See paragraphs B33–B35 for the basis for the Board's conclusions.)

Response: We agree that information about "hedged items" that are not in designated and qualifying Statement 133 "accounting hedges' should be excluded from the disclosure table for the reasons stated in the Proposed ED. Under FAS 159 and FAS 157, entities will be required to disclose attributes about items measured at fair value in the financial statements on an interim basis. We believe the fair value of all financial assets and liabilities for which fair value is required should be required to be summarized in one financial statement footnote in an effort to provide greater transparency concerning which financial assets and liabilities are being carried at fair value, the impact of periodic changes in fair value, and where those impacts are reported in the financial statements. Within one footnote disclosure, the preparer can categorize the fair value amounts reported based on items related by type or strategy, or in any way that will increase the understanding of the fair value amounts being reported in the financial statements. The qualitative disclosures would serve to support and explain strategy interrelationships, where appropriate.

Disclosure of Overall Risk Profile

Issue 8: Under this proposed Statement, quantitative information about nonderivative instruments used as part of an entity's overall risk management strategy would not be included in the disclosure tables. However, paragraphs 44 and 45 of Statement 133 would permit an entity to provide qualitative and quantitative information about the derivatives included in the disclosure tables as those derivatives (a) relate to the overall context of its risk management activities and (b) are related by activity to other financial instruments.

Do you agree that information that could be provided in the qualitative and quantitative disclosures encouraged by paragraphs 44 and 45 of Statement 133 would be sufficient to appropriately inform users of financial statements about the risk management strategies of an entity? If not, should

additional information about an entity's overall risk management strategies be provided as part of the tabular disclosure required by this proposed Statement?

<u>Response</u>: A reporting entity's approach to overall risk management is outside the scope of the Proposed ED. A public' entity's overall approach to risk management is required to be disclosed in the Market Risk section of Management's Discussion and Analysis.

Examples Illustrating Application of This Proposed Statement

Issue 9: This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in derivative instruments, and counterparty credit risk. Those examples are intended to illustrate one potential way of communicating information about how and why an entity uses derivatives and the overall effect of derivatives on an entity's financial position, results of operations, and cash flows. The examples are not intended to be construed as the only way to comply with the disclosure requirements. Are those examples helpful in communicating the objectives of providing information on how and why an entity uses derivatives and on the overall effect of derivatives on an entity's financial position, results of operations, and cash flows? Or, do you believe those examples would be viewed as a prescribed method to comply with the requirements of this proposed Statement?

<u>Response</u>: We believe the examples would be viewed as the prescribed method to comply with the requirements of the Proposed ED. Accordingly, we recommend the Board make it very clear that the templates included are just examples and that reporting entities can develop their own unique qualitative as well as quantitative explanations and exhibits.

Amendments Considered but Not Made

Issue 10: The Board considered but decided against requiring additional disclosures as described in paragraphs B55–B63. Those disclosures focused on providing information on an entity's overall risk management profile, methods for assessing hedge effectiveness, and situations in which an entity could have elected the normal purchases and sales exception.

Do you agree with the Board's decisions not to require disclosures in those areas? Why or why not?

Response: We agree, consistent with the rationale set forth by the Board in B55-B63.

Effective Date

Issue 11: The Board's goal is to issue a final Statement by June 30, 2007. The proposed effective date would be for fiscal years and interim periods ending after December 15, 2007. At initial adoption, comparative disclosures for earlier periods presented would be encouraged, but not required. Beginning in the year after initial adoption, comparative disclosures for earlier periods presented would be required.

Does the effective date provide sufficient time for implementation? (See paragraphs B50-B53 for the basis for the Board's conclusions.)

Response: While Allstate has access to much of the additional disclosure information set forth in the Proposed ED and has historically disclosed much of it, we would nevertheless find it challenging to devote the accounting and technology resources necessary to change automated processes to comply with the proposed requirements beginning December 31, 2007. A non-automated solution would not be the recommended alternative, given the resources that would be required to complete the requirements on a quarterly basis using a non-automated approach. Given the final disclosure requirements are not targeted for release until June 30, 2007, the

automation process which includes the design, programming and testing of the automated solution would be difficult to achieve by the proposed effective date. Accordingly, we would prefer the effective date be extended to the first interim period ending after January 1, 2008, with comparable disclosures required at the December 31, 2008 reporting date.

We hope these comments will be of assistance to the Board and staff in their redeliberations of the requirements of the Proposed ED subsequent to the comment letter deadline. In the event you or any Board or staff members would like clarification of our views and comments, we would be happy to explain our positions in more detail.

Sincerely,

Samuel H. Pilch

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Controller, Chief Accounting Officer The Allstate Corporation