October 2, 2012

Technical Director-File Reference No. 2012-200
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB Exposure Draft, Disclosures about Liquidity and Interest Rate Risk (“ED”)

The Allstate Corporation (“Allstate”) is pleased to provide comments on the FASB Exposure Draft titled Disclosures about Liquidity and Interest Rate Risk (“ED”), which is intended to provide more decision-useful information about an entity’s exposure to liquidity risk and interest rate risk that arise from its financial instruments. We understand one of the FASB’s goals in proposing the new disclosures is to respond to users’ requests to provide more standardized information regarding liquidity and interest rate risk for both financial institutions (as defined in the ED) and non-financial institutions to allow comparability and to facilitate investment decisions on the part of users.

Existing required MD&A liquidity and interest rate related disclosures, including market risk disclosures, capital resources and liquidity disclosures, contractual obligations and commitments and enterprise risk and return management disclosures, provide for extensive reporting of existing risks and how those risks are managed. These disclosures were recently validated by the financial crisis as inquiries from our users about liquidity and interest rate risk were minimal. As a result, we do not believe the additional information proposed in the ED is needed. Should the FASB decide to adopt the proposals in the ED, we would suggest they work closely with the SEC to eliminate redundant disclosures, as approximately 20% of MD&A already contains information regarding these risks. Also, given the tables proposed in the ED involve forward looking information, they should be provided in the MD&A; rather than the footnotes. We understand that the concept is to develop the information using the same assumptions used to measure obligations for accrual. However, as discussed below, additional future projections will be required to complete the proposed tables.

We also believe if the FASB decides to adopt the proposals in the ED, any additional information required to be provided to users should faithfully represent a company’s risks, how those risks are managed, and the benefits should outweigh the costs associated with producing the information. Given the risk management approach applied to our Property and Casualty (“P&C”) insurance business, we do not believe the proposed additional disclosures would faithfully represent the way we manage risk and may be misleading to users. For our Life insurance business, although some of the information is representative of the way we manage liquidity and interest rate risk, risk management is a multi-dimensional process that can not be demonstrated in one-dimensional tables. Additionally, given the significant amount of effort to implement and thereafter produce the proposed disclosures, we do not believe the added
benefits of providing the disclosures outweigh the costs. We offer more cost justifiable alternatives in our comment letter that leverage existing MD&A requirements as they are very robust and already aid users in their understanding of the liquidity and interest rate risk a reporting entity has and how those risks are managed.

**Allstate Business Models and Risk Management Approaches:**

Allstate has two distinct business models for which we apply very different risk management approaches. For our P&C insurance business, the investment strategy emphasizes protection of principal and consistent income generation and is designed to produce competitive returns over the long-term, maintain financial strength and the ability to pay claims, while maximizing economic value and surplus growth. P&C liabilities are non-interest bearing and thus interest rate risk is not managed on a relative basis (i.e., asset repricing relative to liability repricing) but rather at an overall portfolio level with the goal of maximizing total returns to the company. Liquidity risk as it relates to assets is managed considering all sources of liquidity, the most significant of which is the underwriting cash flows from operations. Liquidity in the investment portfolio is managed to accommodate unique circumstances such as the payment of significant unexpected claims (e.g., those from unexpected catastrophes). Similar to the definition of non-financial institutions in the ED, our P&C business “…does not have a strategic imperative to manage the maturities of financial assets and financial liabilities and often settles financial liabilities with funds from operations.” We strongly encourage the Board to remove P&C insurance business from the scope of the ED as the proposed disclosures are not relevant and do not represent how liquidity and interest rate risk are managed for P&C business.

With regard to our Life insurance business, traditional asset-liability management (“ALM”) techniques are applied and, as a result, the proposed disclosures are more relevant; however, as currently defined, the proposed disclosures may not faithfully represent how the risks are assessed and managed. In addition, the significant costs of preparing the proposed disclosures would exceed the benefits of the information. ALM in our Life insurance business is performed at a more granular level than the reporting segment. When assessing liquidity risk, the process captures cash inflows and cash outflows including projected inflows from new business and interest and dividends and projected outflows including future claims, expenses and dividends to be paid to the holding company. When assessing interest rate risk, the analysis considers projections of various interest rate scenarios to confirm a proper matching of assets and liabilities, within certain risk tolerances. With regard to liquidity and interest rate risk, we monitor key metrics including duration, which utilizes stochastic modeling of various scenarios to evaluate sensitivity of both assets and liabilities and identify most likely outcomes. We evaluate those outcomes to inform management actions including changing product or investment mix; modifying crediting rates on interest sensitive products; or selling more liquid assets to raise funds. We do not use any form of the repricing gap table proposed in the ED to manage our interest rate risk. For example, for our universal life products, which have crediting rates that can be reset at any time and life insurance products that have no reset dates, carrying values would be reported in the total column of the proposed table, significantly reducing its usefulness. In summary, the one-dimensional tables being proposed in the ED do not faithfully
represent the multi-dimensional approach used to manage both liquidity and interest rate risk in a life insurance business.

**Costs Associated with Producing Each Proposed Table:**

The liquidity gap, repricing gap and interest rate sensitivity analysis tables proposed for financial institutions are very detailed. The costs associated with preparing the tables on a quarterly basis would be significant. Further details regarding cost are provided below. With regard to the liquid funds table and the cash flow obligations table, the costs are much less significant and yet the information would further users’ understanding of liquidity risk for a reporting entity. As a result, we suggest modified forms of the liquid funds table and cash flow obligations table be considered, and if adopted reported in MD&A, and the more detailed liquidity gap table, repricing gap table and interest rate sensitivity analysis tables in the proposal be eliminated.

Beyond the costs associated with preparing the more detailed proposed disclosures, we are concerned about the liability associated with providing forward looking information in the financial statement footnotes. The tables proposed in the ED would require some form of future projection (e.g., estimate of future interest rates, estimate of future prepayments on prepayable assets, estimated future cash flow projections on annuity obligations, etc...). To demonstrate the extent to which forward looking assumptions may be used, in the contractual obligations and commitments table provided in MD&A (which is very similar to the liability information being proposed for the liquidity gap table), we note several areas where forward looking assumptions are used to prepare the table. For certain contracts issued by our Life business, we are currently not making payments and will not make payments until (i) the occurrence of an insurable event such as death or illness or (ii) the occurrence of a payment triggering event such as the surrender or partial withdrawal on a policy or deposit contract, which is outside our control. A significant portion of our liabilities are simply carried at account value with no assumption for extinguishment. The estimated timing of payments related to these contracts is based on historical experience and our expectation of future payment patterns. Uncertainties include mortality, morbidity, expenses, customer lapse and withdrawal activity, estimated additional deposits and renewal premiums, which may significantly impact both the timing and amount of future payments. For our P&C business, insurance claims are estimated amounts to settle all outstanding claims, including claims that have been incurred but not reported as of the balance sheet. We estimate the timing of the payments based on historical experience and expectation of future payment patterns. Because footnotes are not protected by the SEC’s Safe Harbor rules, we recommend the FASB work closely with the SEC to further enhance the current MD&A requirements, which are protected by Safe Harbor rules, versus adding the proposed disclosures to the audited financial statement footnotes.

**Costs Associated with Financial Institution Proposed Disclosures:**

The following is a list of some of the more significant costs associated with the liquidity gap, repricing gap and interest rate sensitivity analysis tables currently proposed:
• Upfront costs to develop systems to extract information being proposed in the liquidity gap table, repricing table and interest rate sensitivity table for both financial assets and financial liabilities (i.e., particularly our insurance liabilities) are significant. For example, with regard to the liquidity gap table, we understand the goal is to develop a disclosure that relies on information already used in the preparation of financial statements. We can obtain most information for invested assets and certain liabilities from already existing processes used in financial reporting. However, the information is not readily available in some significant areas and would require systems to be developed or to have existing systems modified. For example, for traditional life reserves, the reserve liability is calculated as the present value of future benefits less future premiums. Systems modifications would be required to extract only the future expected benefit payments. For deferred annuity reserves, the GAAP liability is calculated as account value plus SOP 03-1 reserves. The reserve calculation does not contain an estimate of future projected benefit payments. As a result, the information could only be obtained by incurring significant systems costs.

• As the proposed disclosures would be included in the footnotes, there would be significant work to implement controls to facilitate the Sarbanes-Oxley attestation process. Considering the amount of time needed to prepare, review, and analyze the disclosures, and tag them for XBRL purposes, the tables would need to be prepared within a week after the closing of the books each quarter given the accelerated timelines for SEC filers. This would present significant challenges and would place undue pressure on current SEC filing deadlines.

• The interest rate sensitivity analysis would be a very costly table to prepare and would place significant pressure on the SEC filing timetable. The proposal requires eight different scenarios of interest rate sensitivity. The proposal would require a reporting entity to report the impact on Net Income and Shareholder’s Equity for each of the eight scenarios. The ED currently states that a reporting entity is to report the “... impact on after-tax income for the 12-month period immediately after the reporting date”, which could be interpreted to require an estimate of all impacts to Net Income and Shareholder’s Equity for each of the eight scenarios. The proposal also could be interpreted to mean that all direct and indirect impacts from the eight changes in interest rates should be considered when estimating the impact on both Net Income and Shareholder’s Equity.

For an insurance company, direct impacts would include such items as the impact on deferred acquisition costs (adjusted gross profits and shadow deferred acquisition costs), pension obligations, premium deficiency reserves, SOP 03-1 reserves (change in account value affect on estimated fees and as a result the impacts on estimated reserves), deferred taxes (ability to offset unrealized losses with gains), and tax provisions. Indirect impacts could include such items as impacts on realized capital gains and losses from calls, prepayments on structured investments (e.g., commercial
mortgage backed securities, mortgage backed securities, asset backed securities, etc...),
derivative gains and losses, and expected surrenders of insurance liabilities.

The cost involved in evaluating the direct and indirect impacts from interest rate
changes could be best described as requiring an entity to close the books eight
additional times and requires the execution of the full range of accounting and reporting
controls and sign-offs. Notwithstanding the time and effort, the interest rate sensitivity
analysis may provide misleading projections of profitability and Shareholder’s Equity as
no management actions may be incorporated into the interest rate scenarios; including
adjusting crediting rates for annuity contracts, entering into derivative transactions to
mitigate the risk from changing interest rates, modifying the mix of products sold to
customers, changing the mix of assets in the investment portfolio, etc...

- We believe the proposed disclosures should not be required for special purpose audits
  and/or non public companies where the only user of the audited financial statement is
  the reporting entity’s parent. For example, many insurance companies typically have
  insurance subsidiaries for which audit opinions are obtained to allow the entities to be
  admitted\(^1\) as investment assets for Statutory reporting purposes. The audited financial
  statements are not prepared for unrelated third-party investors as the subsidiaries are
  not public companies and, as a result, to require the expansive disclosures proposed in
  the ED do not appear to be cost justified. We would suggest the FASB consider
  requiring disclosures for only public companies.

**Costs Associated with the Non-Financial Institution Proposed Disclosures:**

The cash flow obligations table proposed in the ED is very similar to the contractual obligations
table currently provided in MD&A. Allstate provides a table of liquid funds in its MD&A
disclosures. We do not anticipate the costs of producing modified versions (as suggested below)
of what is being proposed would be unreasonable. Notwithstanding, we continue to strongly
recommend that any new requirements be reported in the MD&A versus the footnotes given
forecasting would be used to produce the information. We also suggest the FASB and SEC work
jointly to eliminate overlap from the proposed tables and already existing SEC requirements.

**Effective Date and Frequency of Providing Proposed Disclosures:**

Should the FASB decide to adopt the proposal as currently drafted, given the operational
implications discussed herein, we recommend an extended implementation timetable of not
less than 2 years. Should the FASB decide to adopt less complex tables such as modified
versions of the liquid funds and cash flow obligations tables, a more current implementation
date may be possible. Another implementation alternative to consider is the coordination of the
proposed disclosures with the effective date of the insurance contracts project. The liability
information to be included in the proposed tables would result in systems costs and

\(^1\) Non-admitting of an asset results in a reduction of Statutory surplus equal to the carrying
value of the asset.
implementation costs that would be incurred twice if the insurance contracts project results in a change in reported insurance liabilities.

The liquidity risk and interest rate risk for a company typically do not change significantly from quarter to quarter. As a result, we suggest the proposed disclosures be required only annually, not quarterly as proposed. We would suggest that, should a major change in facts and circumstance cause a shift in the investment portfolio, for example, or a significant change in policyholder liabilities, more frequent reporting of the required risk information may be warranted. Similar to other information disclosed in the MD&A, we believe management should apply judgment in determining if quarterly updating is warranted.

**Recommended Alternatives to the Proposed Disclosures:**

We believe the costs of the proposed disclosures outweigh the benefits to users and the proposed disclosures may not faithfully represent how risk is managed for all insurance businesses. Notwithstanding, we support the goal of continuing to provide more decision-useful information about liquidity and interest rate risk to users. As a result, we offer the following alternatives to the Board, which we believe would be less costly, while still providing useful information that aligns with the way insurers manage liquidity and interest rate risk.

First, cash outflows are already provided to users though the contractual obligations table in MD&A and if cash inflows on assets were added, we believe that would best demonstrate liquidity risk to users. Moreover, it is reflective of how liquidity is managed as it represents future cash outflows (not discounted like the proposed liquidity gap disclosure) and depicts the information in time intervals that the SEC has required to provide users in the past (i.e., annually, not quarterly as proposed in the ED). The time intervals currently provided in the contractual obligations table are less than 1 year, 1-3 years, 4-5 years and over 5 years. To complement the contractual obligations table, we propose providing a modified version of the liquid funds table proposed in the ED; however, again, it would be provided in MD&A. The time intervals would be consistent with the time intervals in the contractual obligations table and the table would be provided in total for the company consistent with the basis that liquidity is managed. More granular disclosures, including segment level disclosures, are unnecessary if inconsistent with the manner in which liquidity is managed.

Second, we recommend that given the forward looking nature of assessing and managing liquidity and interest rate risk, the information should be provided in MD&A versus the footnotes. This alleviates the Safe Harbor concern of having forward looking information subject to audit and the significant cost of implementing a new control framework to facilitate SOX reporting. Also, similar to other MD&A requirements, the information could be provided annually, with quarterly reporting only necessary if significant changes emerge. As footnote disclosures requirements have been expanded significantly in recent years, reporting the information in MD&A would reduce additional operational costs and reduce the pressure on accelerated SEC filing deadlines.
Third, we recommend further discussion related to interest rate risk be principles-based, where a reporting entity determines the best way to communicate its risk and how that risk is managed. For example, while sensitivity analysis is typically completed for a life insurance business, it generally involves a much more robust stochastic modeling of various interest rate scenarios. Because risk management processes vary among reporting entities they should be encouraged to convey their profile using a mix of qualitative and/or quantitative information. For example, a company may best describe their risk management qualitatively by more robustly describing their processes; the analyses performed; results of their analyses; and actions they may take to manage their risks. Alternatively, a company may decide that the best way to describe their risk management is to provide key metrics such as duration for various product segments for which duration is used to monitor risk or to provide the quantitative results from their sensitivity analysis to better describe, for example, tail risk or probabilities of increased risk under various interest rate environments. Alternatively, a company may decide to best convey its risk through market risk disclosures. These examples are not all-inclusive nor would they be a requirement for every reporting entity. Each entity should determine the most transparent way to convey their risk management processes, the assessment of their current risks and actions they may take to mitigate those risks.

**Should the FASB decide to retain the liquidity gap, repricing gap and interest rate sensitivity analysis tables (as proposed), we urge the Board to work with the SEC to include them in MD&A, versus the footnotes. Also, if retained, we have identified certain modifications to the tables that may increase their decision-usefulness. The following are suggested modifications:**

**Scope:**

- Clarify at what level of disaggregation the proposed disclosures are to be provided. The ED implies that the disclosures are to be provided at a reporting segment level. Currently, companies report assets at the segment level; however, liabilities and equity are not reported in that manner. We believe, consistent with one of the objectives of the disclosures, which is to ensure the utility of the information provided, segment balance sheets would need to be developed. Providing equity at a reportable segment level may not be useful as most insurers manage equity at a legal entity level. Also, with regard to the required level of disaggregation at which the disclosures are to be provided, given one of the objectives of the disclosures is to reconcile to the reported balance sheet, this implies that a consolidated company view of the tables is to be provided. If a reporting entity has financial and non-financial reporting segments (e.g., for an insurer this might be a corporate segment that includes a holding company and/or other non-insurance entities) it would not be possible to consolidate the financial and non-financial segments. We recommend a reporting entity be allowed to determine the level of aggregation that it believes would be most useful to a user. This could include reporting at a total company level, if for example, all reporting segments of the entity are non-financial. It could also result in reporting at a segment level if the reporting entity believes that would be useful to a user.
• As previously articulated, the proposed disclosures should not be required for businesses where there is no strategic imperative to manage maturities of financial assets and financial liabilities and that often settle financial liabilities with funds from operations (e.g., P&C insurance business). As a result, do not include all entities that provide insurance in the scope of the financial institution disclosures.

• We suggest a concerted effort be made to collaborate with the SEC to eliminate redundancy by removing already existing disclosure requirements related to liquidity and interest rate risk. Current required information that would be duplicative include: market risk disclosures; capital resources and liquidity disclosures; contractual obligations and commitments table; enterprise risk and return management disclosures; maturity distribution for fixed income securities; maturity distribution for mortgage loans; expected retirement benefit contributions and benefit payments; and the long-term debt maturity table. The existing MD&A disclosures related to liquidity and interest rate risk comprise approximately 20% of our MD&A.

• We would suggest when assets are not available for the general use of the company both the financial assets and related financial liabilities should be excluded from the proposed disclosures. Insurers have certain products that are reported in Separate Accounts, where the assets are not available for the general use of the company. A similar example would be an investment that is consolidated into the financial statements of the reporting entity, which contains assets and related liabilities. Again, the assets are not available for the general use of the company and can only be used to settle the liabilities of the entity that is being consolidated.

• Finally, the tables should not be required to be reported quarterly as risk does not change significantly from quarter to quarter. Should a significant change occur, a quarterly update should be required.

**Liquidity Gap Table:**

We suggest the amounts depicted in the table would be more relevant if expected cash flows were reported, not GAAP carrying amount. Given the majority of insurers’ investments are reported at fair value with fair value changes in other-comprehensive income, interest rate changes and changes in the market’s view of liquidity and credit will impact the carrying value from period to period and cause undue volatility in the results. When managing liquidity risk for our company, we rely on cash flows, not carrying value.

We also suggest clarifying how the term “expected maturities” is to be applied to financial liabilities. The term “expected maturities” is understandable for investments and debt obligations. However, it is not clear with respect to how it applies to insurance liabilities. We believe it would require estimates of when, for example, P&C claims will be paid or when life or annuity policies may be surrendered or when an annuity matures. However, these estimates involve contract holder decisions and actions or other unknowns that are outside the control of
the insurance company and may be impacted by facts and circumstances beyond the terms of
the contract such as claim settlement practices, legal rulings, legal disputes, etc... As a result, we
continue to stress the importance of any such projections being covered by Safe Harbor rules.

In an effort to reduce costs, we suggest considering reducing the number of time intervals
presented in the table and in the repricing gap table. Annual time intervals used in the
contractual obligations table of the MD&A have proven to be most relevant and are less costly
as reporting fewer time intervals would reduce preparation, audit and review times and XBRL
work.

**Repricing Gap Table:**

Yields shown in the table should be the effective yield and reflect the impacts of associated
derivatives. Effective yield better depicts the spread earned by a reporting entity and
derivatives for insurers are sometimes used to mitigate interest rate risk.

**Interest Rate Sensitivity Table:**

We strongly encourage the FASB to further evaluate this requirement. This table poses the
most significant concerns from a cost perspective. To reduce the operational costs, we
recommend the number of scenarios be reduced; reduce the amount of financial information
provided in the table to include only impacts to fair value of financial assets and financial
liabilities, as opposed to including direct or indirect impacts to Net Income and Shareholder’s
Equity; and include a qualitative discussion of impacts.

Thank you again for allowing us to provide comments on the ED. Should you have any questions
or wish to discuss any of our comments, please feel free to contact Kevin Spataro at 847-402-
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