1880-100
Comment Letter No. 99

December 14, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

Re: **File Reference: No. 1880-100 *Clarifications to Accounting for Troubled Debt Restructurings by Creditors***

Dear Technical Director:

The Allstate Corporation ("Allstate") appreciates the opportunity to comment on the exposure draft *Clarifications to Accounting for Troubled Debt Restructurings by Creditors* ("ED"). Allstate is a large investor in global debt and equity markets and a lender in a significant number of privately negotiated lending arrangements including commercial mortgage loans. As a large investor, we have had significant experience with the types of modifications that would be impacted by the proposals in the ED.

Allstate understands the FASB's concerns about consistency in identifying and reporting troubled debt restructurings ("TDRs") and the desire to have lenders evaluate modifications and restructurings on a more comprehensive basis as opposed to concluding that restructurings are not TDRs through application of rules-based criterion. However, we believe the ED proposals will result in greater inconsistency as there will be a significant amount of incremental judgment involved in determining a market rate, especially for non-homogeneous instruments, such as commercial mortgage loans and other privately negotiated contracts.

We support the continued use by creditors of the borrower's effective interest rate test when determining if a creditor has provided a concession to a debtor. We believe the test is easily applied, readily understood and would be more consistently applied among financial statement preparers than the proposed alternative. Additionally, using the borrower's effective rate is more relevant than evaluating the market rate as a change in the borrower's effective rate provides a better indication as to whether or not the creditor is economically in the same position or worse position than before the modification. We believe the continued use of the borrower's effective rate is more relevant and more faithfully represents whether or not a lender has provided the debtor a concession.

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We find the "market rate" criterion, in assessing whether a concession has been granted by the creditor, to be particularly problematic. That is, the proposed addition of paragraph 310-40-15-8A indicates that if a borrower does not have access to a market rate for debt with similar characteristics, the modification is considered a TDR, presumably whether or not the borrower is in financial difficulty. In the recent market environment, it has not been unusual for the level of activity in certain credit markets to decline significantly, virtually shutting out the availability of many different kinds of credit vehicles and thus, this aspect of the proposal may likely cause most modifications executed in a period of lower market activity to be TDRs.

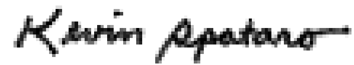
Further, consistent determination of a "market rate" is difficult, if not impossible, in any cost-effective manner. Complying with the proposed guidance will be problematic because lenders will not have the appropriate data to adequately determine what is a "market rate". Due to complexities related to specialized terms, collateral, credit enhancements, etc., it will be very difficult to determine a "market" interest rate on most loans. Further, it is unlikely the lender could obtain third-party quotes for a given borrower that would be consistent. Lending relationships are managed to preserve the cash flows that are contractually due and to minimize economic losses (i.e., a lower borrowing rate after modification). As a result, market rate information is often not a primary factor in structuring loan modifications; rather, the goal is to be at least in the same economic position (i.e., same or higher borrowing rate) after the modification.

As a result of adopting a "market rate" criterion in assessing whether a concession has been granted by the creditor, many loan modifications might be considered TDRs without improving transparency. Therefore, we recommend that the "market rate" concept be eliminated from the proposal. In contrast, we believe determining whether a concession has been granted by the creditor should be based on whether the modification reduces the effective interest rate of the loan (i.e., without being sufficiently compensated with additional cash, collateral, guarantees, or other credit enhancements). This recommendation is consistent with how the lending relationship is managed, will alleviate the difficulty in determining whether a TDR has occurred, and will provide effective and consistent application of the TDR standard.

The proposal to retrospectively disclose loan modifications as TDRs under the new guidance would be extremely difficult for companies to implement. We believe the transition provisions should only be prospectively applied to new modifications as extensive subjective judgments would be involved in determining in 2011, for example, market interest rates for modifications that took place back in 2009. Many financial statement preparers may be conservative (i.e., consider all loan modifications during the effective reporting period to be TDRs) because the data will not normally exist to determine the then-market rate. This would significantly reduce the relevance and faithful representation of the disclosures in previous years. The amount of effort required to evaluate each modification will also be significant.

We appreciate the Board considering our views. Should you have a desire to further discuss our views, please contact me at (847) 402-0929.

Sincerely,



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