January 24, 2011

Technical Director – File Reference No. 1890-100
Financial Accounting Standards Board
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Discussion Paper – Effective Dates and Transition Methods

The Allstate Insurance Company ("Allstate" or "we") is pleased to provide comments on the Financial Accounting Standards Board’s ("FASB" or "Board") Discussion Paper – Effective Dates and Transition Methods ("DP"). Allstate fully supports the FASB’s efforts, together with the International Accounting Standards Board ("IASB"), to develop a single set of high quality global accounting standards. We appreciate the opportunity to provide the Board with feedback on the time and effort that will be involved in adopting the standards that are currently proposed, such as those relating to Financial Instruments, Revenue Recognition, Leases, Insurance Contracts, and Comprehensive Income.

We would like to preface our specific comments by stating that we strongly believe that the FASB’s primary concern should be on developing high quality standards, or in other words, on getting the standards "right." We view the effective dates and transition guidance as secondary and of comparatively lesser importance. In fact, implementation lead times become unimportant when faced with a potential requirement to adopt accounting standards that are inadequate or have potentially punitive effects on the insurance industry.

Two of the joint projects that will critically affect insurance companies are Insurance Contracts and Financial Instruments. Allstate, along with many of our peer companies, remains deeply concerned about many fundamental aspects of both the FASB Discussion Paper and IASB Exposure Draft relating to Insurance Contracts. We believe that if either one of the Boards’ proposals were adopted, it would bring great harm to the global property-casualty industry as the accounting would significantly reduce the relevance, understandability, and comparability of property-casualty insurer financial statements.

Allstate recently submitted a letter to the IASB to provide feedback on its field testing results for the Insurance Contracts Exposure Draft. A key observation from our field testing was that non-comparability would result from the multitude of subjective judgments involved in the proposed risk adjustment estimation process. We also observed that the risk adjustment would fluctuate

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1 This comment letter does not consider the time and effort that would be involved to implement the proposed guidance relating to Financial Statement Presentation and Financial Instruments with Characteristics of Equity since the Board decided in October 2010 to defer work on those projects until it has requisite capacity, likely after June 2011.

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significantly from period to period and due to the multitude of variables involved in the estimation process, it would be very difficult to isolate the reason or reasons for the fluctuations and communicate those reasons in a manner that would be comparable between companies and provide decision-useful information to existing and potential investors. Moreover, the complexity and volume of the assumptions involved would create significant operational challenges to implementing the model. We believe the proposed guidance is inconsistent with the underlying property-casualty business model, and as a result, the information generated from the proposed model would not be used by management to underwrite, manage, or evaluate the results of its business. These observations lead us to believe that the costs outweigh the benefits of that proposal.

Allstate, along with many of its insurance company peers, also has concerns about the proposed Financial Instrument classification and measurement model. We are aware that the Board has received a significant volume of comment letters relating its proposal on Financial Instruments, as well as significant comments relating to the Insurance Contracts discussion paper. We believe the Board should allot sufficient time to thoroughly analyze and consider the comments received on those projects, as well as other projects, before moving ahead with finalizing standards and determining the effective dates and transition guidance.

We continue to believe that the number of critical projects being addressed concurrently and the related final guidance to be released over the next six months is excessive. Therefore, we remain very concerned about the proper level of due diligence that is possible by reporting entities that would be impacted by the proposed standards. We believe it is critical that a comprehensive field test of all significant components of the proposals is completed along with an evaluation of the results before final deliberations on final standards take place.

The above also highlights that the FASB is working within an aggressive timeline for completion of standards that will have significant effects across all industries. We believe the FASB should be focusing on its own due process to ensure that high quality standards are issued, we prefer a moving target on standards completion and implementation dates, as opposed to sacrificing quality and appropriate due process in order to meet artificial deadlines.

We also recommend the FASB devote more time and resources to considering cross-cutting issues and implications across its major projects. For example, the FASB has made decisions to incorporate the business model concept into the considerations for classifying and measuring Financial Instruments. We strongly believe that the business model concept should also be considered in the Insurance Contracts project. We hope that the two separate projects are not deliberated upon independently, but rather that a more holistic approach is followed such that the Board can reach decisions on accounting that will allow insurers to convey the true economics of their business to investors and other financial statement users. To achieve this, we believe there must be consistency and cohesiveness in the principles applied across projects. Accordingly, we believe that effective dates and transition guidance should be determined considering the interrelationships between projects. As there will likely be sweeping changes made to the accounting for both Financial Instruments and Insurance Contracts, we would prefer to implement those standards contemporaneously, as they will both have major impacts to the most significant areas of our financial statements.

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The DP states that the questions should be addressed without regard to the possibility of IFRSs being incorporated into the U.S. reporting system. We believe it would be a mistake to not consider the possibility of conversion to IFRS in this response, particularly since there is divergence between the IASB and FASB on the major proposed standards which could lead to two successive large implementation projects within the time span of approximately 4 or 5 years. We would not raise the point of potential conversion to IFRS in this comment letter if we observed that the FASB and IASB were converging on major decisions. However, the Boards have made divergent decisions on significant issues within projects that will have pervasive effects, particularly for the insurance industry with the projects noted above. Accordingly, we are forced to consider the possible conversion to IFRS as a second major implementation project.

We believe the issue of divergence on major joint projects may also be addressed as we mentioned above, by adjusting the timeline of projects in order to allow for sufficient due process. We recognize that progress on high priority projects is a relevant consideration for the SEC as it determines whether and how to incorporate IFRS into the U.S. financial reporting system. Therefore, the FASB is under timing pressure to issue finalized standards. However, we find it unlikely that the SEC would look favorably upon divergent, but timely standards between the FASB and IASB on supposed joint projects.

Allstate’s detailed responses to the questions posed in the DP are attached.

Sincerely,

[Signature]

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Controller & Group Vice President
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[Signature]

Kevin Spataro
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Appendix

Q1. Please describe the entity (or individual) responding to this Discussion Paper

Allstate is the largest publicly held personal lines insurer in the United States with significant life insurance operations as well. Allstate is a listed company on the New York Stock Exchange and Chicago Stock Exchange with annual revenues in excess of $30 Billion. Allstate is also a large investor in global debt and equity markets (i.e., our investment portfolio is approximately $100 billion) and a lender in a significant number of privately negotiated lending arrangements. We are writing this comment letter primarily from the perspective of a preparer of U.S. GAAP financial statements.

The Financial Instruments and Insurance Contracts projects will have a significant impact on Allstate since those projects relate to the accounting for our core business activities. The Leases and Revenue Recognition projects will also impact Allstate, although to a lesser extent. Allstate enters into leasing arrangements relating to certain office facilities and computer equipment. In 2009, Allstate had total rent expense for all leases of $267 Million, as disclosed in our Form 10K.

Q2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for Financial Instruments, other Comprehensive Income, Revenue Recognition and leases):

   a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?

   b. What are the types of costs you expect to incur in planning for and adaption to the new requirements and what are the primary drivers of those costs? What is the new relative significance of each cost component?

Consistent with a point made in the cover letter, we believe it is important to consider the interrelationships of the standards when evaluating how much time would be needed for implementation. Although the question does not contemplate a potential final Insurance Contracts standard, we believe that the effective date of the Insurance Contracts and Financial Instruments standards should be aligned. Financial performance is most relevantly conveyed when the measurement of financial assets and liabilities is consistent and aligns with the insurer’s business model. We also believe that the process of simultaneously implementing multiple standards will impact the time and resources needed for implementation. For example, if the four standards referred to in the question are all finalized in June of 2011, then we believe the effective dates should allow for more implementation time since companies would be implementing four new accounting standards simultaneously. However, as we stated in the cover letter, we believe that issuing four finalized accounting standards on complex topics over the next five to six months is an extremely aggressive goal if adequate due process is to be observed. Furthermore, it is a secondary concern whether there are 2 or 5 years to implement the new standards if the standards are inadequate, ineffective, or otherwise harm certain industries.

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We also believe that when considering potential effective dates, the method of transition must also be considered. If restatements of prior period financial results are required, we believe it would take at a minimum, 12 months to implement each new standard, and another 12 months to review the results, particularly if comparable period financial statements are required to be reported and the new accounting guidance relates to a core business of the company. However, when implementing multiple new standards simultaneously, we believe we would require at least two years for implementation. Therefore, we believe the finalized standards should not be effective prior to January 1, 2015.

Time would be spent training management and personnel on the new standards, as well as educating investors and other financial statement users. If companies are implementing four new accounting standards simultaneously, the resulting financial statements could look drastically different and therefore, investors would need to be educated on the new requirements in order to understand the changes to financial statements.

Costs of adopting the new standards would include but not be limited to:

- **Potential systems changes:**
  - Developing newly defined inputs to be utilized in new estimation models (for example, for impairment of Financial Instruments);
  - Developing new ways of capturing data and manipulating it in newly defined ways;
  - Developing a new framework for presentation and disclosure and redesigning general ledger data and financial reporting systems to feed into the new framework;
  - Developing new definitions and data collection and interface procedures for certain contracts (for example, leases).

- **Processes changes**
  - Developing new and additional internal controls (i.e., Sarbanes-Oxley).

- **Financial reporting**
  - Increased audit fees in the years of implementation for additional work performed by our audit firm in support of new standards.

Significant one-time costs would be incurred in educating management and investors and training staff. In addition, there could be higher ongoing costs of measuring and reporting in accordance with the new standards, as proposed, due to the added complexity of the proposed models relating to financial instrument classification, measurement, and impairment, and accounting for leases. We expect financial results reported under the proposed standards would be more volatile, and much more analysis would be required to understand and explain the financial statement results. For example, as stated in the cover letter, we observed in our field testing of the IASB Insurance Contracts Exposure Draft that the risk adjustment estimate fluctuates significantly from period to period and it would be very difficult to isolate the reason or reasons for the fluctuations and communicate those reasons in a manner that would be comparable between companies and provide decision-useful information to existing and potential investors.
Lastly, we believe it is important to consider the time needed to implement the finalized standards in the context of the SEC’s potential decision to incorporate IFRS into the U.S. financial reporting system. If the decision is made to incorporate IFRS into U.S. financial reporting, then the timing of that conversion would significantly affect our response, particularly if the Boards continue to make divergent decisions. A conversion to IFRS would be a massive undertaking involving significant time and resources. If the finalized standards are divergent, then in theory, Allstate would have to adopt certain FASB standards for one or several reporting periods before subsequently adopting their IFRS equivalents. FASB standard adoption efforts could be underway at the same time as efforts relating to the overall IFRS convergence project, resulting in competing priorities for an adoption of FASB standards that is unnecessarily duplicative. However, if the finalized standards converged, then implementation would be a sub-project of the overall conversion to IFRS, which is a more reasonable and effective approach.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Allstate is also subject to statutory accounting reporting requirements which are developed by the National Association of Insurance Commissioners (NAIC). The NAIC evaluates new U.S. GAAP accounting guidance when issued to determine if it is appropriate for statutory reporting. The NAIC will need to decide whether to adopt the new U.S. GAAP standards or not, in whole or in part. Any changes or any deviations between U.S. GAAP and statutory accounting principles may require the maintenance of an extra set of accounting records.

In addition, the ability of insurance companies to pay dividends is restricted by the laws of each state of domicile which may be affected by both statutory financial reporting requirements and insurance regulations in the state of domicile. Thus, depending on the differences between current statutory accounting rules and U.S. GAAP accounting guidance, there may be impacts on the dividend paying ability of insurance companies.

Q4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended change and their affect on the cost of adapting to the new reporting requirements.

We agree with the proposed transition methods for the finalized standards relating to Financial Instruments, Other Comprehensive Income and Revenue Recognition. Although a transition method has not yet been proposed for Insurance Contracts, we believe it should be consistent with the method for Financial Instruments (i.e., retrospective or simplified retrospective).

For Leases, the transition would require companies to evaluate leases (including many insignificant leases that are short term in nature) which expired before the adoption date but existed in earlier periods to be presented in comparative financial statements. We believe this

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may require a significant amount of resources to compile information for leases which are no longer in force, many of which are immaterial in nature.

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:
   a. Do you prefer the single date approach or the sequential approach? Why?
   b. Under the single date approach, what should the mandatory effective date be and why?
   c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for the group be?
   d. Do you think another approach would be viable and preferable?

Allstate prefers a single date approach for several reasons. As we have stated throughout the comment letter, we believe there are interrelationships and cross-cutting implications between the topic areas for which standards are expected to be finalized. Therefore, we believe that the new accounting guidance should be implemented contemporaneously, producing financial statements and comparative prior period information that are reflective of the true economics of the business.

We believe that it would be most effective and efficient to consider the entire population of new standards when determining systems implications. Therefore, the systems changes and updates could be made in a more streamlined manner. We also believe that synergies could be gained by approaching the implementation of the standards through one coordinated project management effort.

Under the single date approach and assuming that the FASB issues finalized standards in June 2011, we believe the mandatory effective date(s) should be no earlier than for calendar years starting January 1, 2015. We believe this would allow sufficient time to implement the accounting standards, prepare comparative prior period information where necessary, and to prepare and educate the financial statement users about the accounting changes.

Q6. Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date?

Allstate believes the Board should not provide the option of early adoption for any of the new standards. Since the changes proposed are complex, fundamental, and relate to elements of a companies’ financial statements that could be very significant, we believe that upon adoption, financial statements may be very different from pre-adoptions. We are concerned about the non-comparability of financial statements which would harm investors and other financial statement users.

Q7. For which standards, if any, should the Board provide particular types of entities a delayed effective date?

Allstate believes that the effective date of the standards should be consistent for all financial statement issuers – that is, certain entities should not be provided a deferral. As stated in the

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response to Q6 above, we are concerned about the non-comparability of information prior to and as of adoption of the new accounting standards. We believe this could complicate lender and investor decisions. In addition, we believe the education process for users of financial statements could be streamlined if companies were to adopt the standards concurrently.

If a deferral were provided for certain entities, we would also be concerned with the scope of that deferral. For example, a delayed effective date was proposed in the Financial Instruments ED. As stated in the Group of North America Insurance Enterprises comment letter, we are concerned with this proposed delayed effective date based on comments in the Basis of Conclusions paragraph 252. Paragraph 252 mentions that this deferral would apply to over 90% of banks and credit unions in the United States. As it appears that banks are the intended focus of the proposed accounting standard, we agree with Ms. Seidman and Mr. Smith in that this exclusion calls into question the cost-benefit of the [proposed standard].

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Yes, the FASB and IASB should require the same effective dates and transition methods for their comparable standards. Since the FASB and IASB are working towards convergence on the finalized standards which would be issued in June 2011, there is no reason that the effective dates and transition methods requirements should be divergent.

Q9. How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

The Foundation's ongoing evaluation of standards setting for private companies does not affect our views on the questions raised in the DP.

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