December 9, 2015

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update (Proposed ASU) – Notes to Financial Statements – Assessing Whether Disclosures are Material

The Allstate Corporation is pleased to provide comments on the FASB’s Proposed ASU Notes to Financial Statements – Assessing Whether Disclosures are Material. We support the objective of the Proposed ASU to enhance the effectiveness of existing disclosures by reducing the incidence of disclosures that are not material which add to the complexity of financial reporting and may otherwise obscure information that is useful to financial statements users in making investment decisions.

While we support the objective of the Proposed ASU, we believe that without the modifications outlined in our response to Question 1, it may add substantial complexity to the process of evaluating the need for specific disclosures and may not be consistently interpreted and applied. Moreover, the proposed stipulation that for purposes of evaluating the necessity of footnote disclosures, materiality is a legal, rather than an accounting concept subjects the evaluation to an interpretive standard that exists outside the authoritative accounting framework. We believe materiality, as it relates to financial statements, should remain an accounting concept as set forth in FASB Concepts Statement No. 8, Conceptual Framework for Financial Reporting (CON 8). In addition, because the notion of materiality affects all aspects of accounting and financial reporting including recognition, measurement, and disclosure we would be concerned if one consistent definition was not applied to the financial statements as a whole. In addition, we believe the complexity of the materiality evaluation framework constructed in paragraph 235-10-50-7 may lead to inconsistent decisions amongst reporting entities given similar facts and circumstances, an outcome that would not achieve the objective of enhancing the effectiveness of existing disclosures.

Based on our evaluation, we believe modifications to the Proposed ASU would be beneficial for it to achieve the desired objectives. As such we would not support the Proposed ASU, in its current form, being effective upon issuance. In addition, the Board should consider additional testing of the Proposed ASU if it is modified to confirm its effectiveness in achieving the Board’s objectives.

We welcome the opportunity to discuss our comments in more depth with the Board and Staff.

Sam Pilch
Group Senior Vice-President, Controller and Chief Accounting Officer
Allstate Insurance Company

Kevin Spataro
Senior Vice President, Corporate Accounting Research
Allstate Insurance Company
Questions for Respondents

Question 1: Would assessing materiality subject to the proposed changes to paragraphs 235-10-50-7 through 50-8 be any easier than under current GAAP? If yes, please explain why.

We support the intent of the proposed changes to paragraphs 235-10-50-7 through 50-8, however, we do not believe they would make the evaluation of the materiality of financial statement disclosures less complex due to the construction of the proposal and the potential move from an accounting to a legal definition of materiality.

The existing definition of materiality resides in CON 8 which states,

“Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity”.

In contrast, the Proposed ASU, would among other things, replace the CON 8 definition of materiality with the U.S. Supreme Court’s definition as referenced in paragraph 235-10-50-8, which states,

“Information is material if there is a substantial likelihood that the omitted or misstated disclosure would have been viewed by a reasonable resource provider as having significantly altered the total mix of information available in making a decision”.

In our view, the objectives of the Proposed ASU could be more effectively achieved if the CON 8 definition of materiality were retained. This would confirm that materiality, for purposes of recognition, measurement, and disclosure assessments, is an accounting rather than a legal concept. We believe this is critical as materiality is a pervasive consideration that affects all aspects of accounting and financial reporting, and as such, it is important that a single, consistent definition be applied to maintain the integrity of the financial statements as a whole.

In addition, in contrast to the construction of the proposed materiality evaluation framework provided in paragraph 235-10-50-7, as it relates to disclosures, we would suggest a simple statement that financial statement disclosures need only be provided about information that is deemed material; consistent with the definition provided in CON 8, as described above.

While we believe it is possible that the Board’s proposed modifications to the materiality definition could achieve the objective of reducing the incidence of disclosures that are not material, the proposed materiality evaluation using the U.S. Supreme Court definition of materiality and the framework in paragraph 235-10-50-7 would be substantially more complex than that which currently exists. Accordingly, we support retaining the existing materiality definition in CON 8, eliminating the proposed modifications in paragraphs 235-10-50-7 and 50-8, and retaining the clarification in paragraph 235-10-50-9.

To assess the effectiveness of our proposal we evaluated our existing derivate footnote disclosures which include an entire page devoted to credit derivatives (See Exhibit I) where the company has sold protection. Given the notional exposure and current fair value of the underlying contracts, we would conclude that the disclosure is not material and therefore would eliminate it on a prospective basis if
the Proposed ASU (which our suggested modifications) were in place. This is one example of how the Proposed ASU, as modified by our suggestions, could be applied. While we have not conducted a full review of our financial statement disclosures, initial indications would be that the Proposed ASU with our suggested modifications would decrease disclosures in the range of 5%.

While we believe the ultimate impact on disclosures would be incremental rather than significant, we support the Board’s objectives in issuing the Proposed ASU and believe it would, together with our suggested modifications, improve the effectiveness of financial statement disclosures by limiting disclosures to those that are material thereby reducing the incidence of disclosures that are not material which may obscure the conveyance of important information to financial statement users.

**Question 2: Would applying the amendments in this proposed Update significantly increase or reduce costs of preparing the notes to financial statements? Why or why not?**

We believe that applying the proposed amendments would increase the cost of preparing the notes to the financial statements due to the change in definition of materiality and the complexity of the materiality evaluation framework set forth in paragraph 235-10-50-7. We cannot estimate the magnitude of the increase, however, the rationale underlying our assertion that the costs of preparing the notes to the financial statements would increase is provided in our response to Question 1.

**Question 3: Would the amendments in this proposed Update change the information you otherwise would include in the notes to financial statements? Why or why not? If yes, how would that increase, diminish, or otherwise change the notes’ usefulness to investors, creditors, and other financial statement users?**

Without more comprehensive testing of the proposed guidance in paragraphs 235-10-50-7 and 50-8, it is difficult to determine whether its application would increase, diminish, or otherwise change the information included in the notes to financial statements or its usefulness. Notwithstanding, we believe existing footnote disclosures provide sufficient information to financial statement users to allow them to make informed investment decisions about a specific reporting entity. At the same time, we believe it is possible to enhance the usefulness of existing disclosures by limiting disclosures to those that are material, however, we are not convinced the proposed amendments would achieve that objective without our suggested changes as articulated in our response to Question 1.

**Question 4: Do you expect regulatory, legal, or audit consequences that would affect your ability to consider materiality when selecting information to be disclosed in notes to financial statements? Please explain.**

We believe that as a result of the proposed stipulation that materiality is a legal, rather than an accounting concept the anticipated legal consequences of materiality determinations would be disproportionately affected. At the same time, the regulatory and audit consequences of any modifications would remain relevant when selecting information to be disclosed in the notes to financial statements.
Question 5: How would you disclose information in comparative financial statements if your assessments of materiality differed in different years?

Consistent with existing practice, to the extent a materiality assessment of information in comparative financial statements is judged differently in different years, the reason for the different determination is disclosed if that information is considered material to financial statement users in making informed investment decisions about a specific reporting entity.

Question 6: Should the Board eliminate from the Accounting Standards Codification phrases like “an entity shall at a minimum provide” and other wording that could appear to limit an entity’s discretion to omit immaterial disclosures? Are there particular Topics or Sections in which those changes should not be made? Are there additional paragraphs within the Accounting Standards Codification in which the wording is particularly restrictive and is not identified in Appendix B of this proposed Update? If so, please identify them.

Yes – we believe the Board should eliminate from the Accounting Standards Codification phrases like “an entity shall at a minimum provide” as it does not support the objective of limiting disclosures to information that is material to a financial statement user. In our view, limiting disclosures to that which is material would enhance the usefulness of financial statements as the possibility of information that is not material obscuring the usefulness of important information would be reduced.

Question 7: Do you agree with the proposed amendment that would explicitly state that the omission of an immaterial required disclosure is not an accounting error? Why or why not?

Yes – we believe the proposed guidance in paragraph 235-10-50-9 would reduce the incidence of disclosures that are not material as reporting entities seeking to avoid the presence of accounting errors may disclose information that is not material to avoid the possibility of an accounting error.

Question 8: Are there considerations other than those discussed in this proposed Update that would apply to not-for-profit entities?

None that we are aware of.

Question 9: Should the proposed amendments be effective upon issuance?

If the proposed amendments are not simplified, we would not support their being effective upon issuance as we believe the complexity of the guidance would require the reconsideration of all disclosures which is a very complex, time demanding exercise.
Credit derivatives – selling protection

Free-standing credit default swaps ("CDS") are utilized for selling credit protection against a specified credit event. A credit default swap is a derivative instrument, representing an agreement between two parties to exchange the credit risk of a specified entity (or a group of entities), or an index based on the credit risk of a group of entities (all commonly referred to as the "reference entity" or a portfolio of "reference entities"), in return for a periodic premium. In selling protection, CDS are used to replicate fixed income securities and to complement the cash market when credit exposure to certain issuers is not available or when the derivative alternative is less expensive than the cash market alternative. CDS typically have a five-year term.

The following table shows the CDS notional amounts by credit rating and fair value of protection sold.

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<th>BBB</th>
<th>BB and lower</th>
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<th>Fair value</th>
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In selling protection with CDS, the Company sells credit protection on an identified single name, a basket of names in a first-to-default ("FTD") structure or credit derivative index ("CDX") that is generally investment grade, and in return receives periodic premiums through expiration or termination of the agreement. With single name CDS, this premium or credit spread generally corresponds to the difference between the yield on the reference entity's public fixed maturity cash instruments and swap rates at the time the agreement is executed. With a FTD basket, because of the additional credit risk inherent in a basket of named reference entities, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket and the correlation between the names. CDX is utilized to take a position on multiple (generally 125) reference entities. Credit events are typically defined as bankruptcy, failure to pay, or restructuring, depending on the nature of the reference entities. If a credit event occurs, the Company settles with the counterparty, either through physical settlement or cash settlement. In a physical settlement, a reference asset is delivered by the buyer of protection to the Company, in exchange for cash payment at par, whereas in a cash settlement, the Company pays the difference between par and the prescribed value of the reference asset. When a credit event occurs in a single name or FTD basket (for FTD, the first credit event occurring for any one name in the basket), the contract terminates at the time of settlement. For CDX, the reference entity's name incurring the credit event is removed from the index while the contract continues until expiration. The maximum payout on a CDS is the contract notional amount. A physical settlement may afford the Company with recovery rights as the new owner of the asset.

The Company monitors risk associated with credit derivatives through individual name credit limits at both a credit derivative and a combined cash instrument/credit derivative level. The ratings of individual names for which protection has been sold are also monitored.