



July 16, 2014

Technical Director-File Reference No. 2014-200
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB Proposed Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting*

The Allstate Corporation ("Allstate") is pleased to provide comments on the FASB's Proposed Statement of Financial Accounting Concepts, *Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements* ("Proposal"), which is intended to provide a general framework for the Board to consider when developing disclosure requirements for notes to the financial statements in the future and in evaluating existing footnote disclosure requirements.

As a reporting entity, we view footnote disclosures as an integral component of our financial statements in that they provide information necessary for our financial statement users to understand amounts, and periodic changes in amounts reported in the basic financial statements. Accordingly, we support the Board's development of a robust framework to be used in developing disclosure requirements to accompany new accounting guidance and to periodically reassess the decision-usefulness of existing footnote disclosures.

We support the Board's general approach in the Proposal which focuses on three critical elements for which disclosures can be provided; i.e., (a) financial statement line items, (b) the reporting entity, and (c) past events and current circumstances that can affect an entity's cash flows. The Proposal then determines what decision-useful information should be required to allow financial statement users to better understand those elements in the context of the reporting entity's business objectives and its periodic performance toward achieving those objectives.

As a Securities and Exchange Commission ("SEC") registrant, we are familiar with and understand the importance of providing information to financial statement users that is forward-looking in nature. This type of information is considered critical by most financial statement users to support a sufficient understanding of historic and current cash flows necessary to make informed predictions about future net cash flows.

While we support the objective and need for the Proposal, we have recommendations for the Board to consider that we believe may enhance the Proposal and make it more effective in identifying and delivering decision-useful information to financial statement users.

Our recommendations are provided below. In addition, more specific comments for each of the questions set forth in the Proposal are provided in Appendix A.

Overall, we agree with the Board that financial statement footnote disclosures should focus on the following three elements; (a) financial statement line items, (b) the reporting entity, and (c) the impact of past events and current conditions on future cash flows. At the same time, the following “considerations” are presented for evaluation by the Board along with other comments received from constituents on the Proposal.

Consider adopting certain fundamental requirements for the Disclosure Framework

- Required footnote disclosures that adequately describe the reporting entity and the nature of the business being reported on in the financial statements
- Required footnote disclosures that adequately describe the accounting policies applied to material¹ financial statement line items in the basic financial statements
 - Materiality would be observed and applied on a principles-based manner focusing on the qualitative and quantitative aspects of materiality; not solely on quantitative measures
 - Adopting the Proposal without addressing how materiality should be considered could lead to expanded disclosures of non-material matters
- Required footnote disclosures for each material line item or transaction in the basic financial statements consistent with the basic objective of disclosing information relevant to financial statement users as they assess the potential for future cash flows.

Consider adopting certain supplemental requirements for the Disclosure Framework

- Internal and external risks to which a reporting entity is exposed that may impact future cash flows
 - For SEC registrants this information would be provided in the discussion of “Risk Factors”
 - For non-public entities this information should be provided supplementally and presented as “Unaudited – Supplemental Information”
 - The disclosure of risks and uncertainties related to financial statement line items should be limited to conditions existing at the measurement date, and adding any requirements not already provided for under U. S. GAAP should be subject to a cost benefit study before being imposed.
- Estimation ranges and sensitivities, whenever required or otherwise provided would be presented for public entities within Management’s Discussion and Analysis (“MD&A”) and be covered by the SEC rules that provide a “safe harbor” for forward-looking information. For non-public entities such information would be provided supplementally and presented as “Unaudited – Supplemental Information”
- Events (e.g., commitments, litigation, etc.), conditions and circumstances described in D52-D58
 - Events as described in D52-D56 that exist or are known at the financial statement reporting date would be disclosed in the financial statement footnotes, if reasonably possible outcomes could be material
 - Conditions and Circumstances as described in D57-D58 would typically be disclosed as “Risk Factors” and would be incorporated in the discussion of Risk Factors for SEC registrants and provided supplementally on an unaudited basis for non-public entities

¹ Information is material if omitting or misstating it could influence decisions of stakeholders based on financial information about a specific reporting entity. Materiality is an entity-specific aspect of relevance based on the nature or magnitude of items under consideration in the context of a reporting entity’s financial statements.

Consider requirements for interim versus annual reporting periods

- Interim financial information provides financial statement users with timely information as to the progress of the reporting entity. The usefulness of interim information rests on the relationship that it has to the annual financial statements and whether changes therefrom provide new information that is material.
- Interim financial statements and footnotes should focus on conveying new information or information about significant changes to matters discussed in the recent annual financial statements. Accordingly, certain information needed to understand interim-period financial statements must be obtained from the most recent annual financial statements.

Consider periodic reconsideration of financial statement disclosures

- Footnote disclosures would be reconsidered no less frequently than annually to validate that existing disclosures continue to address both basic and supplemental disclosure considerations consistent with contemporary materiality assessments and business conditions
- Basic and supplemental disclosures related to financial statement line items, the reporting entity or other conditions and circumstances, would be eliminated when the amounts to which the disclosures relate are no longer assessed as material in the subject financial statements

Given the importance of this subject, we believe that field testing of the Proposal is essential to confirm that it achieves its intended reporting objectives when applied. The Proposal addresses observations from many constituents that guidelines around the preparation of financial statement disclosures be reconsidered and refined with the objective of producing disclosures that provide more decision-useful information for current financial statements and that disclosures, that are in some cases redundant or relate to circumstances or conditions that are no longer material, be eliminated. We believe the interests of preparers and financial statement users are aligned and best served when financial statement footnote disclosures are limited to material, decision-useful information and not diminished by the presence of disclosures about events, circumstances and conditions that are no longer material.

In addition to providing our recommendations we would also like to offer to “field test” both the Board’s Proposal as well as our recommendations on selected financial statement disclosures that have been identified by both preparers and users as being excessive (e.g., those related to Financial Instruments and Pensions). We believe that such a field test may provide the Board with useful information as it continues to evaluate the elements of the Proposal.

Thank you again for allowing us to provide comments on the Proposal. Should you have any questions or wish to discuss any of our comments, please feel free to contact Kevin Spataro at 847-402-2029 or Sam Pilch at 847-402-2213.

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Appendix A

Question 1: Should financial statements of employee benefit plans be excluded from the scope of this chapter of the conceptual framework?

We would not exclude employee benefit plans from the scope of the Proposal. The rationale for not excluding employee benefit plans is that the Proposal is intended to provide a general disclosure framework for the Board to follow when developing accounting standards. We believe the Proposal, once finalized, should provide a useful framework for developing financial statement disclosures and therefore we believe it should be applied as broadly as possible, including to the financial statements of employee benefit plans.

Question 2: Do the concepts in this chapter related to not-for-profit entities address the informational needs of resource providers to those entities?

Resource providers to non-for-profit (“NFP”) entities including contributors, investors, lenders and other creditors should have their needs met by the Proposal. More specifically, assuming the focus of the constituent group is the efficiency and effectiveness of the NFP in meeting its non-business objectives, the disclosure framework could be applied to identify the information that should be disclosed to meet the informational needs of the constituent group.

Question 3: Do the concepts in this chapter encompass the information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making? Are there concepts that should be added or removed?

In general, the concepts in the Proposal encompass information appropriate for disclosure in notes to financial statements that would assist resource providers in their decision making. However, in situations where the information relates to risk factors, forward-looking information, ranges, or sensitivities we believe the information should not be presented in the financial statement footnotes but rather should be included in the Risk Factors or MD&A for SEC registrants or provided on a “Supplemental – Unaudited” basis for non-public reporting entities.

Question 4: Are there additional concepts needed to identify information that is unsuitable for requirement by the Board in notes to financial statements even though that information would be consistent with the purpose of the notes?

Consistent with our response to Question 3 and our broader responses, we believe that while information related to risk factors, forward-looking information, ranges, and sensitivities may represent information that is considered decision-useful to financial statement users we believe that the placement of this information outside the financial statement footnotes is necessary given the need to rely on the SEC’s “safe harbor” protections for forward looking information. Similarly, for non-public entities we believe the information should be provided on a “Supplemental – Unaudited” basis.

Moreover, addressing these concepts without first addressing how materiality could lead to expanded disclosure of immaterial information which may reduce transparency. Accordingly, we suggest the Board address materiality as a fundamental component of the Proposal.

Question 5: Do the decision questions in Appendix A identify the information appropriate for the Board to consider requiring for disclosure when setting standards related to line items and other past events and current circumstances and conditions that can assist resource providers in their decision making?

In general, the decision questions in Appendix A identify information appropriate for the Board to consider requiring for disclosure when developing accounting and standards. However, there are elements of the decision questions that we believe may result in the disclosure of information in the financial statement footnotes that may be better suited to MD&A or Risk Factors, where the reporting entity would benefit from the SEC's safe harbor provided to forward-looking information.

Examples of decision questions that we suggest the content be evaluated include the following:

Question L5: Are the cash flows related to the line item subject to change as a result of changes in general economic conditions or market factors? If so, are the specific conditions or factors or the nature of their effect not apparent from the description of the line item?

We believe decision question L5 may lead to a requirement to disclose either, or both, risk factors and forward-looking information in the financial statement footnotes which are subject to audit and not protected by the safe harbor for forward-looking information that exists in MD&A.

There is a difference between stating the factors (qualitative disclosure) and attempting to measure them. Trying to quantify reasonable possible impacts of risks may give users a false sense of understanding the risks.

Question L6: Are the prospects for cash flows related to the line item affected by changes in entity-specific factors or sector-specific-factors, particularly those that can be expected to change frequently or significantly, and would a user not be expected to be aware of the factors or their potential effects? Examples include volatile, demand for the entity's products or services, social factors affecting the sector or entity, imminent obsolescence, supply chain concerns, new laws and regulations, availability of trained workers, management turnover, and environmental hazards.

We believe decision question L6 may be too broadly constructed which could lead to both an excessive level of disclosure as well as disclosures that represent risk factors which we believe should not be included within the audited financial statement footnotes. Moreover, we believe disclosures should be limited to risks and uncertainties that are known at the date of measurement.

Question L7: Are the causes of the changes in an entity's line item of an asset, liability, or equity instrument not easily understood? Information to be considered for disclosure – The causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed roll-forward). It would be important to separate routine changes from non-routine changes and changes in reported amounts caused by changes in accounting, changes in economic conditions, changes in the composition of the entity, and changes in contractual obligations or rights.

We believe decision question L7 is constructed in a manner that may lead to an excessive level of disclosure as it describes conditions and circumstances that could reasonably be triggered in each reporting period. For example, economic conditions are in a constant state of change and those changing conditions impact a reporting entity's assets, liabilities, and operations. Moreover, separating routine from non-routine changes may be difficult on two levels; first, distinguishing between routine and non-routine changes would require the application of judgment in the absence of prescriptive guidance and second, a reporting entity's assets are often inter-related and as a result it is often difficult to isolate the impacts of internal and external factors on specific financial statement line items. In addition, we believe this concept is already addressed in existing GAAP as material changes in accounting estimates require disclosure. Our general concern is that the guidelines may result in the disclosure of non-material matters.

Question L10: *Are there acceptable alternative accounting policies or methods provided under U.S. GAAP that might have been applied to this line item? Information to be considered for disclosure – (a) the accounting policy or method applied, and (b) the magnitude of the effect if the accounting method is unusual, if results produced are counter to what a reader might otherwise expect (e.g., last-in, first-out (LIFO) inventory costing), or if the method otherwise dramatically affects the financial statement(full cost versus successful efforts).*

We believe decision question L10 could pose a challenge as it relates to “Information to be Considered for Disclosure – item (b)” – More specifically, judgment would be necessary to determine whether the acceptable accounting alternative selected by the reporting entity would be considered “unusual” in relation to the universe of potential alternatives. In addition, assuming this element of the disclosure trigger is tripped the result would be the need for the reporting entity to essentially keep two sets of accounting records – one using the deemed “unusual” accounting methodology and another applying the alternative methodology.

There are a number of areas where more than one accounting method is acceptable and the choosing the method to apply is area of judgment. The cost of determining and reporting all situations where alternative accounting methods exist would be cost prohibitive.

Question L11: *Has the accounting policy or method used for this line item changed because of adoption of or transition to newly issued guidance or because the previous method was determined to no longer be proper? Information to Be Considered for Disclosure – (a) the fact that a change has occurred, (b) the reason(s) for the change, and (c) how the change would have affected previous years or, if that is not feasible, how the previous method would have produced different information this year.*

We believe decision question L11 could potentially lead to an excessive level of disclosure that may not be cost beneficial. More specifically, for accounting changes, the disclosure requirements of which are prescribed by ASU 250, are adequate to meet the informational needs of financial statement users whereas the Proposal could add pro-forma disclosures that could be very costly to produce. In addition, adding a new requirement to existing GAAP will result in expanding disclosures beyond application to

those that are material. Moreover, for SEC registrants, we believe any pro-forma information should be presented outside the financial statement footnotes to benefit from the safe-harbor rules afforded to forward-looking information. In contrast, for non-public reporting entities we suggest that any pro-forma information be specifically marked as “Supplemental – Unaudited” information.

Question L12: *Will this line item be affected in future years by transition to an accounting standard that has been issued but that is not yet effective or not fully effective? Information to Be Considered for Disclosure – (a) when the transition will occur, (b) a description of the anticipated effect on future financial statements¹⁶, and (c) if readily available, the pro forma effect on current-year financial statements.*

We believe decision question L12 applies to information that, for SEC registrants, is currently provided outside the financial statement footnotes pursuant to the requirements of Staff Accounting Bulletin No. 74, *Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period* (“SAB 74”), which we believe is appropriate as it allows reporting entities to benefit from the safe-harbor rules afforded forward-looking information. In contrast, for non-public reporting entities, if they are required to disclose SAB 74 type information, we suggest that any pro-forma or forward-looking information be specifically marked as “Supplemental – Unaudited” information.

Question L13: *Is the method for determining the amount of the line item uncommon, not apparent from the description, or otherwise hard to discern? Information to Be Considered for Disclosure – (a) an explanation of how the amount of the line item was determined (for example, an option pricing model, a matrix pricing technique, or an internally developed technique). If the computation is unique or unusual but prescribed in a accounting standard (e.g., the determination of deferred taxes or uncertain tax positions), disclosure might be unnecessary if the line-item description is adequate to indicate the accounting requirement that is applied.*

We believe decision question L13, as written, could lead to a significant expansion of the accounting policy footnote which currently extends to “significant accounting policies”. If the Proposal focuses on complex recognition and measurement situations as opposed to the accounting for significant financial statement line items and transactions there could be an expansion of the accounting policy footnote to include descriptions of the recognition and measurement of items, that while unusual or complex, do not significantly impact the results or operations or the financial position of the reporting entity.

In addition, certain financial statement line items are aggregations of many non-material matters with different accounting policies. Those aggregations should be exempt from this requirement.

Question L14: *Is the carrying amount of the line item an estimate that requires assumptions, judgments, or other internal inputs that could reasonably have been different? This question is not limited to fair value or other estimates of current value. At times, accumulations of costs involve uncertainties (about which costs to include, for example), and impairment allowances not based on quoted market prices are nearly*

always subject to significant uncertainties. Information about how changes between periods for significant estimates, assumptions, judgments, or other internal inputs that have affected a line item also would be potentially relevant. Information to Be Considered for Disclosure – Disclosure of enough detail about the significant estimates, assumptions, judgments, or other internal inputs to provide a general understanding of (1) how the carrying amount was determined, (2) the level of uncertainty inherent in the amount, and (3) how significantly the number might have changed if the inputs had been different.

We believe decision question L14 could require the disclosure of information that for SEC registrants is currently provided for in the MD&A as part of Critical Accounting Estimates (“CAE”). The CAE apply to accounting estimates and assumptions that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on financial condition or operating performance. Reporting entities are currently required to provide an enhanced discussion and analysis of these critical accounting estimates that provides greater insight into the quality and variability of information regarding financial condition and operating performance. Due to the nature of information provided in the CAE, we believe it is most appropriately presented in MD&A. Similarly, if this type of information is required to be disclosed by non-public reporting entities, we suggest that it be specifically marked as “Supplemental – Unaudited” information.

Most accounting is based on best estimates. Accordingly, providing alternative estimates could be misleading since they would not represent management’s best judgment regarding the item being quantified.

Question L15: Is there an alternative measure or way of applying a measurement that clearly would be useful in assessing prospects for cash flows? An alternative measure might be considered for an asset or a liability. One example is the fair value of a financial instrument reported at a cost-based amount. Another example is disclosing inventory using the first in-first out (FIFO) inventory costing method for inventory carried using the LIFO inventory costing method. Information to Be Considered for Disclosure – (a) identification of the alternative measurement or method of application, and (b) an indication of the magnitude of the difference between the reported measurement and the alternative measurement (or the amount of the alternative measurement).

See response to decision question L10.

Question 6: Does the discussion in paragraphs D43–D50 identify the information appropriate for the Board to consider when setting standards related to information about the reporting entity?

Yes.

Question 7: Will the concepts related to future-oriented information (paragraphs D22–D31) result in disclosures that are appropriate for the notes? If not, what types of information should be included in or excluded from consideration for disclosure in the notes?

In paragraphs D22-D31, the Proposal identifies three different types of future-oriented information:

- a) Information about estimates and assumptions used as inputs to measurements
- b) Information about existing plans and strategies related to matters under management's control
- c) Information about the effect of specified future changes in existing conditions on specific line items or on the entity as a whole

Paragraph D-12 of the Proposal indicates that information provided in the footnotes to the financial statements explains recognized amounts and related descriptions in the financial statements that is fundamental to an investor for making assessments about future cash flows. Moreover, amounts recognized in the financial statements are determined using the best information that exists at the reporting date. Thus, while the carrying value of assets and liabilities may involve estimates about future conditions (e.g., salvage values), recognized amounts are based on existing conditions at the reporting date.

Consistent with the preceding, if salvage values are material to a reporting entity's operating performance and financial condition, we would expect the accounting policy footnote to contain a description of the accounting policy for how salvage values are estimated to allow investors the ability to consider the impact of potentially different estimation methods and outcomes when making their investment decisions.

We believe information provided in the financial statement footnotes should be limited to conditions existing at the reporting date and prior periods. All future-oriented or forward-looking information should be presented outside the financial statement footnotes for the reasons described in paragraph D-25 of the Proposal. More specifically, paragraph D-25 states, "The objective of financial reporting does not require a reporting entity's management to assess the entity's prospects for future cash flows, but to provide information to assist investors and creditors in making their own assessments."

For SEC registrants, if accounting estimates and assumptions are considered material due to their inherent level of subjectivity and judgment, and those estimates and assumptions may materially impact the financial condition or operating performance of the registrant, there is a requirement to provide an enhanced discussion and analysis to provide greater insight into the quality and variability of those estimates and assumptions. This information, is however, provided outside the financial statements and footnotes. For non-public reporting entities, if required to provide an enhanced discussion and analysis of certain estimates to provide greater insight into the quality and variability of those estimates and assumptions, we suggest the information be provided supplementally and be specifically marked as "Supplemental – Unaudited" information.

Question 8: Do the concepts in this chapter appropriately distinguish the types of information that are appropriate for the notes from the analysis management provides in other communications?

We believe the Proposal includes a more indirect than direct distinction of information that should be provided in the notes to financial statements versus elsewhere in financial communications. In contrast, we propose this distinction be made more direct and in particular we would identify specific objectives, requirements, and attributes that when identified would determine the geographical placement of information – i.e., MD&A or footnotes for SEC registrants and Supplemental – Unaudited information or footnotes for non-public reporting entities that do not complete an MD&A.

Question 9: Are the concepts related to disclosure requirements for interim periods (paragraphs D60–D71) appropriate? If not, are there concepts that should be added or removed?

We believe the concepts for interim period disclosure requirements are generally helpful. More specifically, we support the concepts set forth in paragraphs D-61 and D-62 which state that, “the interim periods for which financial statements are prepared should be viewed primarily as an integral part of annual periods.....because financial statements for interim periods are essentially an update of the information in the most recent annual statements, notes are intended to convey new information or information about significant changes to matters discussed in notes to the most recent annual financial statements.”

In light of the preceding we believe it would be useful for the final disclosure framework to focus on the content of annual disclosures; make it clear that interim financial statements and supporting disclosures should focus on new information about significant changes to the most recent annual financial statements, and that the content of annual disclosures should be continually reassessed to determine that all of the information contained in the footnote disclosures continues to be relevant to financial statement users and cost-beneficial for the reporting entity to produce.

Question 10: If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, how will an entity consider the non-authoritative guidance in this chapter?

If no disclosure guidance for a transaction, event, or line item is specified in U.S. GAAP, we would follow the general guidance set forth in the Proposal and develop disclosures aimed at providing more information about financial line items, the reporting entity, or other information about past event and current conditions and circumstances that can affect a reporting entity’s cash flows.