August 1, 2011

James Kroeker
Chief Accountant
Office of Chief Accountant
United States Securities and Exchange Commission
100 F. Street, N.E.
Washington, D.C. 20549

Re: SEC Staff Paper (May 26, 2011) on the Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers

Dear Mr. Kroeker:

The Allstate Insurance Company ("Allstate" or "we") is pleased to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") on the staff paper that explores one possible method of incorporating International Financial Reporting Standards ("IFRS") into U.S. financial reporting ("Staff Paper").

Allstate is the largest publicly held personal lines insurer in the United States with significant life insurance operations as well. Allstate is also a large, sophisticated institutional investor with over $100 billion of invested assets of both foreign and domestic origin. We have been actively engaged in the development of IFRS as we recognize the significance of a potential adoption of IFRS not only for our company, but the global financial services industry. As both a public financial statement filer in the U.S. and a large institutional investor, our comments on the Staff Paper incorporate both perspectives.

We appreciate the Commission's efforts to explore a potential method of incorporating IFRS into U.S. financial reporting that would minimize transition costs and be consistent with other major countries' method of adoption. The proposal would retain U.S. GAAP, adopt the guidance resulting from joint Financial Accounting Standards Board ("FASB")/International Accounting Standards Board ("IASB") projects, and incorporate remaining IFRSs over a defined period of time. At the same time, the FASB would remain the principal standard-setting body responsible for developing and monitoring U.S. GAAP under the authority of the Commission.

We support and have been actively involved in efforts to converge U.S. GAAP and IFRS with the goal of developing a single set of high-quality global accounting and reporting standards. We do, however, find it difficult to express unqualified support for the proposal in the Staff Paper due to the continuing uncertainty that exists around the satisfactory completion of key FASB/IASB joint projects on the accounting for Financial Instruments, Insurance, Leases, Revenue Recognition and Reporting Financial Performance. In addition to our concerns about



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the satisfactory completion of critical joint projects, we have observations related to the Staff Paper which are enumerated below.

**Concerns With the Continuing Role of the FASB**

We are generally concerned that the role of the FASB, as proposed, may not provide U.S. constituents (e.g., registrants, investors, etc.) with influence in the IASB global standard-setting process commensurate with the U. S. share of the global economy. We believe the IASB could benefit from the rich experience of the FASB if it were to play a more significant role in the IASB's standard-setting process.

The FASB would continue to promulgate U.S. GAAP, primarily through its endorsement of IASB standards. Moreover, the Staff Paper suggests that the circumstances for which the FASB would consider modifying IFRS would be expected to be "rare" and "generally avoidable." The underlying rationale is that since the FASB would be intimately involved throughout the standard-development process, any resulting IASB standard be acceptable. We are concerned with this assumption, especially if there is no consistent, formal, transparent mechanism for the U.S. to participate in the IASB's deliberations. Accordingly, we believe an enhanced and more formal role for the U.S. in the IASB's standard development process is critical to support the FASB's endorsement process.

**IASB Due Process and Improvements in Accounting Standards**

We believe that prior to making any final decision on whether to incorporate IFRS into U.S. financial reporting, the SEC should comprehensively and critically evaluate the IASB's standards development process. For purposes of this evaluation, we suggest consideration be given to the IASB's process followed in the development of critical accounting and reporting standards that remain in process (i.e., Financial Instruments, Insurance Contracts, Revenue Recognition, Leases, and Reporting Financial Performance ). Consideration should be given to the following indicators of improvement in accounting standards which are enumerated in the SEC's proposed Roadmap for IFRS[1]:

- Whether the standards are of high quality (neutral principles that require consistent, comparable, relevant and reliable information that is useful to investors) and sufficiently comprehensive;
- Are the standards established under a robust, independent process that includes careful consideration of possible alternative approaches and due process, which allows for input from and consideration of views expressed by affected parties, including investors;
- Are they capable of improving the accuracy and effectiveness of financial reporting and the protection of investors; and
- Do they result in a high quality of financial reporting relative to the standards which may be replaced.

As the first milestone towards potential use of IFRS, the results of the above evaluation of the IASB's standard development process are of critical importance in the SEC's decision on

[1] Securities and Exchange Commission Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers, November 14, 2008, page 23



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whether to incorporate IFRS into U.S. financial reporting. An additional milestone of critical importance in the SEC's proposed Roadmap for IFRS requires effective training and education about IFRS, particularly for investors, because the main benefits to investors of a single set of globally-accepted accounting standards would be realized only if investors more fully understood the basis for reported results[2]. In this respect, we believe the Commission should consider U.S.-based investor feedback on critical joint standards such as Insurance Contracts, where significant concerns have been raised about the understandability of the proposed standards.

The FASB's mission statement is to establish and improve standards of financial accounting and reporting that provides decision-useful information to investors and other users of financial reports[3]. That mission and implicit responsibility to investors guide the standard-setting activities of the FASB. In the FASB's Rule of Procedures document[4], its guiding principles include:

- To actively solicit and *carefully weigh* the views of stakeholders, and
- To issue standards only when the expected benefits *exceed* the perceived costs.

In contrast, the IASB's guiding principles are more general and state that it follows a "thorough, open and transparent due process of which the publication of consultative documents, such as discussion papers and exposure drafts, for public comment is an important component" and engages with "investors, regulators, business leaders, accounting standard-setters and the accountancy profession.[5]"

While the differences between the FASB and IASB may appear subtle, in practice the differences have proved to be more significant; mainly because the FASB has had the benefit of decades of experience operating within, and continuously refining, its operating and standard development processes and procedures. Alternatively, the IASB has a relatively short history and is under tremendous pressure to finalize a number of highly complex, foundational standards that could have profound impacts on global financial markets. Accordingly, we believe the true test of the effectiveness of the IASB's standard development process will be revealed in how they deal with the variety of outstanding issues in the above-mentioned critical joint projects and with the quality of those final standards. In dealing with the outstanding issues in the Insurance Contracts project, as one example, it will be critical to assess from the perspective of U.S. investors the quality of the IASB's due process and how effectively it executed essential activities such as soliciting investor and preparer feedback which includes field-testing, and more importantly, how that feedback was obtained, evaluated (i.e., the formality and transparency of the process to all affected constituents), and applied when arriving at a final standard.

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[2] Securities and Exchange Commission Roadmap for the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers, November 14, 2008, pages 28-29
[3] http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154526495
[4] Rules of Procedure Amended and Restated through February 29, 2011 (www.fasb.org)
[5] http://www.ifrs.org/The+organisation/IASCF+and+IASB.htm



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In the case of Insurance Contracts, as we stated previously, we do not believe the IASB has sufficiently deliberated issues around the measurement and reporting of short-duration insurance contracts nor has there been, for a variety of reasons, sufficient field-testing of its existing proposal for either short or long-duration insurance contracts, both of which play a vital role in the operation of global financial and industrial markets. U.S.-based investors have raised serious concerns with the IASB's proposal for both the accounting and reporting of short as well as long-duration insurance contracts. They have very clearly articulated a view that the IASB's current proposal, especially for short-duration contracts, would produce information that is less understandable, less comparable, and as a result would increase the cost of capital of insurers as compared with existing U.S. GAAP.

Thus far, there is divergence between the IASB and FASB on certain significant issues within a number of critical joint projects, such as Financial Instruments and Insurance Contracts. This raises questions about the future ability of the FASB and IASB staff to effectively work together to resolve differences prior to the IASB issuing proposed or final guidance. Divergent decisions may have been reached because the FASB has made decisions based upon feedback from U.S. constituents; whereas the IASB has weighed more heavily feedback from non-U.S. constituents. The differences in feedback received may be caused by jurisdictional differences such as, for example, financial and insurance products bought/sold, business models and regulations unique to each jurisdiction. This further highlights our concern that the input from U.S. constituents may not receive sufficient weight in the IASB's standard-setting process and the resulting standards may be inadequate or have potentially punitive effects on U.S. industries.

We believe the rigorous due process currently in place at the FASB results in U.S. preparers adopting standards that are adequately vetted, field-tested and complete. We seek to ensure that the U.S. financial reporting system would benefit from the same level of due process and quality of standards if the SEC transitions primary standard-setting authority to the IASB.

**Transition**

The Staff Paper provides a flexible, tailored transition plan that would allow for gradual implementation of IFRS. However, Allstate prefers a single date approach for several reasons. First, we believe there are interrelationships and cross-cutting implications between the topic areas for which standards are expected to be finalized (i.e, Category 1). Therefore, we believe that the new accounting guidance should be implemented concurrently, producing financial statements and comparative prior period information that are reflective of the true economics of the business. Second, we believe that it would be most effective and efficient to consider the entire population of new standards (all Categories in the Staff Paper) 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. Additionally, we would be concerned if transition were over an extended period because of the increased likelihood that investors may avoid certain industries, such as insurance, due to prolonged challenges in understanding the complex accounting changes and impacts to



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financial statements. This could increase the cost of capital and have detrimental impacts on a vital global industry.

**Concluding Remarks**
In conclusion, we appreciate the opportunity to comment on the Staff Paper. If the Boards desire a further discussion of our views, please contact me at (847) 402-2213 or Kevin Spataro at (847) 402-0929.

Sincerely,

Samuel H. Pilch

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