

The Surety Association of America

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President

September 29, 2003

Mr. Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
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Letter of Comment No: 28
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Dear Chairman Herz:

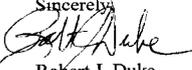
The Surety Association of America (“SAA”) is a trade association consisting of approximately 550 companies licensed to write surety bonds. SAA member companies collectively account for the vast majority of surety bonds written in the United States. SAA companies are significant users of financial statements as part of the underwriting process in determining whether to extend surety credit. We urge the Financial Accounting Standards Board to reconsider its decision to make FAS 150 applicable to non-public entities.

FAS 150 requires that issuers classify as liabilities certain financial instruments, including shares that are “mandatorily redeemable” upon an event that is certain to occur, such as death or termination of employment of an individual shareholder. Shares that are subject to a buy-sell agreement that is triggered by the death of the shareholder would be “mandatorily redeemable” under FAS 150 and therefore must be classified as a liability.

The majority of surety premiums is attributable to performance and payment bonds posted by construction contractors. Many construction companies are privately owned and closely held by only a few shareholders. In order to ensure the continuation of the company upon the death or retirement of the stockholders, sureties typically require the establishment of continuity plans, including the establishment of buy-sell agreements. Classifying shares subject to buy-sell obligations as a liability confuses and complicates the analysis of the contractor’s financial information and determination of equity by the surety and other users of the contractor’s financial statement. For example, many public entities that procure construction services use financial statements to determine the appropriate bidding limits for each contractor. Equity is a key consideration. FAS 150 would severely and unnecessarily limit the capacity of many contractors to conduct their business.

SAA supports the recommendation made by the Associated General Contractors of America that in lieu of privately held companies recording a liability, the entity should be required to disclose the terms of buy-sell agreements, including the events that would cause a liability. It also would be appropriate to disclose any life insurance that would mitigate the impact of the stock purchase.

Thank you for your consideration. Please contact me if you have any questions.

Sincerely,

Robert J. Duke