From: Chris Gleason
To: Director - FASB
Subject: Comment Letter - File Reference No. 1820-100
Date: Monday, October 18, 2010 1:12:07 PM

Dear FASB Technical Director,

We at RLI Corporation – a surety company providing credit to the construction industry, are extremely interested in the Board's Exposure Draft on Revenue Recognition from Contracts with Customers. It is our sincere desire to ensure that high quality accounting standards for the construction industry are maintained.

We have significant concerns over how the proposed new accounting standards may be applied to our construction company clients, and the potential adverse impact on the surety industry as a whole. The current guidance in the Exposure Draft for recognizing revenue at the performance level obligation presents significant challenges for both our customers and ourselves. The inherent subjectivity of the prescribed process for identifying and allocating revenue to various performance obligations will lead to less consistency and transparency in the financial reporting process, and does not represent an improvement over existing accounting standards for the construction industry.

The vast majority of construction contracts should not be subdivided into multiple profit centers, or performance obligations, because the risks within the contract are inseparable. Construction project owners enter into agreements with contractors to construct a project in which all elements of the contract must function together. In most construction contracts, all of the activities under the contract are highly interrelated, and there is typically no more than a single performance obligation. As a surety company we provide credit on a project by project basis, and our construction company clients manage their business at the contract level. We believe it is most appropriate to measure construction revenue at the contract level, rather than to subdivide individual contracts into separate, subjective, performance obligations. As such, we believe the current percentage of completion accounting standards represent the best method of accounting for construction contracts.

By adopting the proposed new accounting standards for the construction industry, the board runs the very real possibility of creating inferior accounting rules when applied to the construction industry. We ask the Board to re-consider making changes in the revenue recognition methodology for the construction industry, and to maintain the existing percentage of completion accounting standards.

Sincerely,

Christopher H. Gleason
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