1820-100
Comment Letter No. 123

United Fire & Casualty Company
United Life Insurance Company
Addison Insurance Company
Lafayette Insurance Company
United Fire & Indemnity Company

UNITED FIRE GROUP®

Surety Department

October 19, 2010

Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk CT 06856-5116
Attn: Technical Director – File Reference No. 1820-100

Re: **Comments on the FASB and IASB Exposure Draft on Revenue Recognition File Reference No. 1820-100**

Dear FASB Technical Director,

As a surety providing credit to the construction industry, we are extremely interested in the Boards' project on revenue recognition, and it is our desire to ensure that high-quality accounting for the construction industry is maintained.

We have significant concerns over how the new standard may be applied to our customers; that is privately held firms in the construction industry. The current guidance in the Exposure Draft for recognizing revenue at the "performance obligation" level presents significant challenges for my company and carries the very real risk of adverse economic effects on our industry stemming from an inferior method of revenue recognition. The inherent subjectivity of the prescribed process for indentifying and allocating revenue to performance obligations will lead to less consistency and transparency in the financial reporting process in the industry. The inherent subjectivity also opens the door to financial engineering and outright manipulation. There are significant concerns in the surety community about any approach that diminishes consistency and increases subjectivity. As a result, surety credit will become marginally more difficult to obtain in the future in order to offset the risks associated with inferior accounting rules.

We believe the reason that the Boards are hearing negative feedback from the construction industry has to do with the fact that the proposed revenue recognition rules are divorced from economic reality. But, we also believe that it is possible, with relatively modest refinements to the guidance under the proposed standard, to align the revenue recognition rules with economic realty. Specifically, we request that the Boards recognize that in most cases, ALL construction activities for a given project are highly interrelated and have overall risks which are inseparable. Therefore, construction companies lack a basis for determining the price at which they would sell the components of a contract separately and as such characteristics of distinct profit margin will not be met (in most cases) and hence there are typically no more than a single performance obligation for most construction contracts.

Construction companies manage their businesses at the contract level. Sureties provide credit on a contract-by-contract basis. It is inappropriate to try to determine revenues on any basis other than the contract level. The departure from the percentage of completion method of accounting, which anticipates the whole contract, will increase burdens and costs on construction businesses and the accounting firms that service this industry. If these smaller firms are unable to provide the necessary information, surety credit could be reduced.

We concur with the guidance in the Exposure Draft regarding continuous transfer and we believe it is appropriately reasoned.

With respect to determining the contract price, we believe that variable consideration (i.e. bonuses or penalties) should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. Until that time, the inclusion is highly subjective and as a matter of course, we believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.

While we appreciate the Boards' efforts to create a single standard to apply to virtually all industries and transactions, we maintain a belief that the key principals of the proposed standard need to be interpreted in such a way to preserve the key tenets of SOP 81-1, also known as ASC605-35. Otherwise, the Boards run the very real risk of creating inferior accounting rules when applied to the construction industry. The proposed performance obligation approach would not be an improvement over the existing accounting for the construction industry.

Finally, we ask that private companies be given at least two additional years to comply with the proposed standard once it becomes effective for public companies. Private companies just do not have the resources to make these changes so quickly and this burden could cause unfair economic hardship.

Sincerely,

United Fire & Casualty Co.

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