

October 20, 2010

Financial Accounting Standards Board Technical Director File Reference No.1820-100 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Zurich Surety, Credit & Political Risk

600 Red Brook Blvd.
Owings Mills, MD 21117

Phone: 410-559-8790 Fax: 410-559-8787 Re: Comments on the FASB and IASB Exposure Draft on Revenue Recognition - File Reference No. 1820-100

Dear FASB Technical Advisor:

Zurich Surety, Credit & Political Risk is one of the top five providers of surety credit to the construction industry. As such, we have thousands of construction clients, the vast majority of which are smaller, privately-held companies, who we believe will be impacted by the implementation of the proposed new FASB/ IASB standards regarding Revenue Recognition from Contracts with Customers.

We appreciate the efforts FASB is making to improve financial reporting with respect to revenue recognition. We acknowledge there can be a divergence in accounting practice, which typically is influenced by industry. The numerous rules can at times provide conflicting guidance for preparers of financial information. The desire to adopt a single, consistent, and uniform principles based standard across numerous industries is a goal that has merit. However, in our opinion, we believe that the proposed standard overlooks many unique aspects for the construction industry.

We have significant concerns regarding how the new standard will be applied to our customers and the different interpretations that will ensue by the accounting firms. Additionally, we believe that such a significant change will result in additional financial burden and investment in systems by the majority of our clients to support a change that is not of benefit to them or the primary users of their financial statements. This also does not take into account the inefficiencies that may result for both the clients and users of the financial statements implementing a change of this magnitude.

The current guidance in the Exposure Draft calls for recognizing revenue at the performance obligation level. This would be a significant departure for the construction industry and application of SOP 81-1. In our opinion, the performance



Page 2

application of SOP 81-1. In our opinion, the performance obligation method does not represent an improved accounting method for the majority of our construction clients. The proposed performance obligation method would permit dividing a construction contract into multiple performance obligations. Most contracts, in our opinion, should not treated in this manner as our belief is that the "risks are inseparable" within the typical construction contract. The customer and contractor enter into an agreement (contract) to construct a project which adheres to specific criteria making it necessary that all elements of contract function together for the successful completion of the project.

Construction companies manage their businesses at the contract level. Sureties provide credit on a contract-by-contract basis. Our position is all construction activities for a given project are highly interrelated. As a result, the construction contract has inherent risks which are inseparable.

As a surety company, we make detailed credit evaluations of an individual contractor's historical financial performance. As a part of this process, we rely on the review of a contractor's performance on a contract-by-contract basis. Any departure from the percentage of completion method of accounting would result in changes to the historical information and basis by which we evaluate contractors. As a result Sureties will likely be forced to request additional information and employ additional resources as a result, the cost of which would be passed on to the construction client, and ultimately to project owners.

In conclusion, we believe that the current level of financial reporting and evaluation of revenue recognition arising from contractual agreements in the construction industry provides us as surety with a sufficient and reasonably complete level of understanding of the risks inherent in backing our clients' obligations. As such, we believe adopting the proposed FASB/IASB standards will put undue hardship on our clients to likely incur additional expense to provide additional information that will likely not be sufficiently changed or more complete so as to affect our decisions.

Yours truly,

David Hewett

Executive Vice President

Daviel & Hewit