

October 21, 2010

Via U.S. Mail and Electronic Mail

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

RE: Exposure Draft

Proposed Accounting Standards Update Revenue from Contract with Customers

File Reference No. 1820-100

As a member of the Board of Directors of the Surety and Fidelity Association of America (SFAA) and the SFAA Contract Bonds Advisory Committee, on September 9th I had the opportunity to hear Mr. Bement speak to us on behalf of FASB. We have also reviewed the exposure draft that has been published for comment. Mr. Bement did an excellent job of explaining FASB's goal to develop standards that apply to all industries and businesses. He explained the changes that will result from this undertaking will be standards similar to those adopted by the International Accounting Standards Board, IASB. Mr. Bement also explained FASB's desire to receive feedback from "users" of financial statements. He indicated if the proposed changes resulted in users of statements requiring non GAAP statements then the entire undertaking would be considered a failure. We appreciate the opportunity to provide feedback and comments.

Merchants Bonding Company is an insurance company domiciled in Iowa since 1933. Merchants specializes in the underwriting of surety bonds. In 2009, our company was ranked as the 18th largest surety company in the U.S., measured by premium income. Approximately 75% of our volume is from surety premium for bonds provided to the construction industry. We currently provide contract bonds to approximately 5,400 contractors and do business in every state. We also underwrite new submissions presented to us to approve for surety credit. We receive and underwrite approximately 2,500 to 3,000 new submissions per year.

Merchants' typical clients are contractors with annual sales of \$25 Million and less. We provide bonds on single projects up to the \$20 Million range. We do have larger clients but over 90% fall within those parameters. Many of our clients have annual revenue of less than \$5 Million.

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Many reasons that have been documented and presented to FASB as to why the proposed changes do not make sense to apply them to all industries and businesses. I can confirm that Merchants Bonding Company would continue to require most of our clients to provide statements that are prepared where revenue is recognized on the percentage of completion method on a cost to cost basis. This is simply the most accurate and time tested method for the surety industry to make its credit extension decisions.

While the construction industry constitutes a large portion of the Gross Domestic Product of the U.S. (consistently between four and five percent), the industry is mostly made up of small businesses that operate in small geographic regions. Most construction companies are family owned businesses. Most also rely on surety and banking credit to operate. According to the NAICS, in 2007 there were 799,811 construction firms in the U.S. Of these firms, 791,200, or 98.9%, had annual revenue of less than \$25 Million. The additional costs that will be passed on to these small businesses should be considered. These businesses would be forced to change their internal systems, probably purchase new software, and still provide the surety industry the same statements they already are presently.

In our meeting, Mr. Bement indicated that the comments received so far from FASB, of course of varying degrees of detail and quality, have all been negative. At the time, FASB had not received comments from any user of the financial statements of the construction industry that were in favor of FASB adopting the proposed changes. All of the comments had been opposed to the proposed changes.

In the end, it is not logical that FASB would proceed with adopting the changes outlined in the exposure draft and adopting them for all industries. Knowing that users of statements for the construction industry would require non GAAP statements and creating the unnecessary cost that would be passed on to an industry of many small companies, would be irresponsible of FASB. FASB's goal of developing standards that apply to all industries certainly sounds logical. However, common sense would indicate that it is simply not practical.

We appreciate the opportunity to provide our input and ask that our comments are considered as FASB proceeds with this undertaking.

Truly yours,

President

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