

115 Glastonbury Blvd. • Glastonbury, CT 06033 • Phone: (860) 494-4934 • Fax: (860) 494-4904 • capitolindemnity.com

Capitol Indemnity Corporation

October 5, 2010

Sent via Email

Capitol Specialty

Mr. Ken Bement

Insurance

**FASB** 

Corporation

Norwalk, CT

Platte River Insurance Company

Re: Exposure Draft, Revenue from Contracts with Customers - File Reference 1820-100

Dear Mr. Bement,

This letter is our response for comments pertaining to the proposed revised standard for the recognition of revenue from contracts.

Capitol Insurance Companies, operating as Platte River Insurance Company and Capitol Indemnity Corporation, is a top twenty writer of surety bonds in the United States. We provide commercial surety bonds and commercial contract bonds to our customers. The proposed revision to the accounting standards by FASB and IASB on how revenue from contracts is recognized would have a dramatic affect upon the content and usefulness of a contractor's financial statement and consequently, the underwriting of that statement.

Financial statements are the cornerstone of the underwriting of a contractor account and sureties are heavy users of statements. Any change that diminishes the usefulness of the statements would be detrimental to a surety's underwriting. The percentage of completion methodology, in place since the early '80's, has proven to be effective for the recognition of revenue and profit from construction contracts. Recognizing revenue as costs are incurred is important to the assessment of performance on a contract. This is the standard that has worked well over the last three decades and is aligned with a surety's information needs. It provides a view of contractor performance on the whole contract. The proposed standard would change this by focusing on revenue recognized when a contractor satisfies a "performance obligation". This standard would significantly degrade the usefulness of the information that would result. Sureties would have few options, if any, to requiring their accounts to provide that which has met their needs in the past. Conceivably, this would result in additional costs to the accounts. There is the cost of getting accounting information based on the new standard and the learning curve for everyone including accounting professionals in understanding the information. Then, there would be the cost of providing additional schedules to the surety showing the information in the percentage of completion format.

We respectfully request FASB and IASB reconsider their proposal.

Sincerely,

Platte River Insurance Company

Gerald J. Perrone.

Director of Surety Underwriting

Property
Casualty
Surplus Lines
Commercial Surety