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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 from Contracts with Customers

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 clients. The current guidance in the Exposure Draft for recognizing revenue at the "performance obligation" level presents significant challenges for us and carries the very real risk of adverse economic effects on our industry stemming from an inferior method of revenue recognition. Surety companies will still require the construction industry to report on a percentage of completion basis, so that the surety to can properly evaluate the contractors' financial condition and trends. So the contractor is forced to incur costs to have two different statements prepared.

The inherent subjectivity of the prescribed process for identifying 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.

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 reality.

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.

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

While we appreciate the Boards' efforts to create a single standard to apply to virtually all industries and transactions, we believe the key principals of the proposed standard need to be interpreted in such a way to preserve the key tenets of SOP 81-1. Ohterwise, the Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.

Finally, we ask that private companies be given at least one additional year to comply with the proposed standard once it become effective for public companies.

Kindest regards,

Gary E. Bradley
Surety Support Services, Inc.