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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's Exposure Draft on Revenue Recognition from Contracts with Customers

Dear Sir or Madam:

As an auditor serving the construction industry, our firm is extremely interested in the Boards project on revenue recognition. Our firm provides services to clients in the construction industry and we would like to ensure that the best and highest-quality accounting standards are in place. I have never in my 25 year career written a letter to the Board commenting on an exposure draft. However, I felt that the revenue recognition initiative that the Board is proposing was important enough to warrant my comments.

I have significant concerns over how the new standard may be applied to our clients in the construction industry. 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. 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 to 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.

I 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. However, I also believe that it is possible to make relatively modest refinements to the guidance under the proposed standard in order to align the revenue recognition rules with economic reality.

Specifically, I 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 it would sell the components of a contract separately and, as such, characteristics of distinct profit margin will not be met in most cases. Hence, there is typically no more than a single performance obligation for most construction contracts.

I concur with the guidance in the Exposure Draft regarding continuous transfer and I believe it is appropriately reasoned. With respect to determining the contract price, I 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, I believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.

While I appreciate the Boards efforts to create a single standard to apply to virtually all industries and transactions, I 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. Otherwise, the Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.

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

Sincerely,

Richard A Stufflebeam
Certified Public Accountant