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Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk CT 06856-5116
Attn: Technical Director - File Reference No. 1660-100

Re: the FASB and IASB's Preliminary Views on Revenue Recognition in Contracts with Customers

Dear Technical Director:

I am writing to object to the changes proposed in your discussion draft. I have held senior financial positions in public and private construction firms for more than thirty years (Treasurer, CFO, VP Finance, VP Administration); I have been the top elected volunteer officer of six domestic and international professional construction associations (CFMA, ICCIFP, ACCE, IAPMC, C3, and CFMA Chicago); I am a CPA and a CCIFP; I owned a retail business for sixteen years; I am presently manager of an LLC that buys construction services; and I am an investor in publicly-held firms that operate in the construction industry. I share the above not to boast but to demonstrate that I am very aware of the issues and the terrible impact they will have if the proposed changes are implemented.

To be even better informed regarding the proposed changes, I've read the exposure draft, reviewed materials on your website, seen your podcast and attended webinars on this subject by CFMA and AGC. I've also discussed this subject at length with peers including CPAs and CFMA members who are working with your committee on this project.

As I understand the industry, construction is arguably the largest employment category in the private sector, it is essentially the craft of managing and transferring risks that vary substantially for each job (no two sites, no two project owners and lenders, and no two buildings can ever be identical), and the owners of construction contracting companies large or small depend on their accounting departments to help manage their businesses effectively through relevant job management data, relevant reporting to lenders and owners, and tools that relate to customers who demand clarity and specific jobsite performance from their contractors.

I am not going to respond to the specific questions listed in your exposure draft because I believe the entire concept of forcing construction into a one-size-fits-all accounting solution is just plain wrong. For me to address particular questions would be equivalent to endorsing the overall concept of this change and I most definitely do not endorse the changes proposed. Completed contract accounting was wrong and I joined the industry just in time to lead conversion to percent complete with my new employer. Rejecting completed contract accounting meant that we could leave behind a system that was prone to abuse, was inadequate for timely business management, and was useless in conveying to sureties and lenders the actual status of our business thus forcing them to rely on subjective attributes such as cherry-picked data, partial and biased statistics and 'relationships'. Completed contract by segment seems an appropriate label for the proposed changes and I believe that completed contract by whatever label is still wrong.

I have worked in retailing, manufacturing, banking, health care, and marine transportation in addition to my thirty years in construction. My experience proves to me that construction is unique. To deny this distinction is to condemn the industry and the public to the ignorance we emerged from 30 years ago.

Following are my specific comments.

Summary

It appears that FASB and IASB have determined that there is a 'one size fits all' solution to revenue recognition that will make Walmart's sales reports somehow comparable to revenues reported by construction contractors. I reject the notion that kumbayah is a valid accounting principal. From my perspective of more than thirty years in building construction, I regard your quest as not just misguided, I believe it will do great damage to management of the construction process, it will confound the customers and the public, and it will sow the seeds of distrust in the eyes of investors.

I believe that your proposed changes are just plain wrong. Further I believe that they do not meet the needs criteria you set forth in the introduction to your disclosure draft for the following reasons:

IN2. (a) The inconsistencies and weaknesses you have in mind could be between IASB and FASB but they are either not apparent to or are not relevant within the construction industry and its service providers. The firms actually performing the work in the real world as construction contractors and their sureties and lenders regard the already-existing revenue recognition method far superior to the pre-SOP 81-1 days. Your proposal seems to demand that construction contractors create artificial segments within the construction contracts they signed with their customers so that the contractors can guesstimate prices for these extra-contractual segments which will not be verifiable in the marketplace due to the unique nature of construction (realize that every job is different because of location, financing, ownership, design, etc). You then propose that revenue be recognized as possession is delivered for these artificial segments (completed contract by segment) with no possible benefit to construction clients. Your proposal introduces pointless complexities such as inflation of the number of cost codes, it suspends fundamental principals such as the matching concept, and it substantially increases the number of subjective decisions that will be required which will vastly increase the opportunity for and the benefits from manipulation and self-serving interpretations all to the detriment of the customer, the lenders and sureties, as well as to investors and the public at large. Customers of construction contractors do not want artificial job segments and imaginary pricing, they want their contractors to deliver jobs according to plans and specs on time and on budget. Contrary to achieving your objectives, I believe your proposed changes will introduce substantial inconsistencies and weaknesses in accounting for construction contractor revenues

IN2. (b) I believe the more robust framework you seek through the proposed changes will not be achieved. Your proposed changes demand creation of artificial job segments to which imaginary pricing will be applied. A conscientious construction contractor will be overwhelmed by the need for generating such artificial detail that has no value to managing the construction process. A less-than-fastidious construction contractor is less likely to be diligent in this area. Since the detail that will be needed to implement your proposed changes will have no job-management value I predict the entire scheme will be erratically applied within the industry. So your proposed changes will actually make revenue recognition less uniform and less robust.

IN2. (c) I believe that the comparability to other industries that you seek is unattainable with regard to revenue earned by construction contractors. There is a fundamental difference between construction and retailing (or any other industry). All construction projects are unique because they involve distinct sets of high-stakes variables including location, design, timing, duration, risks and risk management, financing, ownership, function and so on. Instead of seeking a 'one-size-fits-all' accounting solution I believe you should accept the reality that construction contractors are willing to face these 'one-of-a-kind' uncertainties and that they require appropriate accounting methods to manage them. Construction revenue generation is not simply a variation on the 'point of sale' methods that retailers use: Construction contracting is a whole different paradigm and relevant revenue recognition must address the difference. By forcing construction contractor revenue recognition into the retailing mode of accounting, your proposed procedures will achieve only superficial comparability. This comparability-in-name-only will be built on artificial segments with unverifiable and made up selling prices and will deceive all who are forced to view them. The proposed changes will mask the true status of construction contract results from users of financial statements. Industry participants such as lenders and sureties would do better by disregarding financial reporting based on the proposed regulations and instead require their construction contractor clients to provide real financial reports based on process-relevant accounting concepts. If adopted, your proposed changes will have succeeded in increasing billable hours by the accounting profession at the same time you will have eroded users' willingness to rely on their work product. The comparability you seek will only be superficial and while it may make for superficial harmony across borders I would urge investors to beware.

IN2. (d) There will be nothing simple about a contractor's financial statement preparation if you put these proposed requirements in place. The proposed requirements are asking for many more cost codes, an exponential increase in estimates and segments to monitor and validate; and a mind-boggling increase in potential for abuse. I predict an overall increase in complexity and an increase in demand for accountants at all levels as a result of this proposed change because we will need to keep multiple sets of books. First of all, construction contractors need to manage their businesses and the existing method has greatly enhanced this outcome as compared to the completed contract method that prevailed 30 years ago. Second is the need to account for differences between book and tax which already today requires extra steps. If your proposed requirements become GAAP, then construction contractors will need another set of books: this set built on superfluous distinctions such as artificial job segments and guesstimated selling prices for things construction contractors don't sell on a stand-alone basis and which their customers don't buy that way either. This hypothetical set of books would be the ones on which GAAP financial statements would be based and by themselves will be more complex just because of the substantial increase in the job segments and guesstimates involved. The proposed requirements will thus complicate and not simplify conscientious statement preparation.

Conclusion

In the context of construction contractor accounting and reporting the proposed changes contradict the reasons you have given for imposing them. They will substantially increase the inconsistencies and weaknesses in accounting for construction contractor revenues; they will actually make revenue recognition less uniform and less robust; they will achieve only superficial comparability and this at the expense of credibility and reliability; and they will complicate accounting and statement preparation. Don't go there, please.

I hope my comments will find their way into your deliberations and help you avoid a terrible mistake. If I can assist you in this process please let me know.

Sincerely

Gordon B. Marshall

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