Rick Wallet
Division Surety Leader
Surety Operations
330-887-0493
richardwallet@westfieldgrp.com



October 18, 2010

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

Re: Westfield Insurance Company

Comment Letter - File Reference No. 1820-100

Dear Technical Director:

Westfield Insurance, one of the 50 largest property / casualty companies in the United States, provides commercial and personal insurance in 19 states and surety services to customers in 31 states. We are the leading contract surety writer in the state of Ohio and ranked among the top 18 surety companies in the United States. Our efforts are focused on middle market construction contractors with average work programs ranging from \$5,000,000 to \$50,000,000.

As users of financial statements, we appreciate the opportunity to provide comments regarding FASB's "Preliminary Views on Revenue Recognition in Contracts with Customers." As a surety company specializing in construction contract bonds, assessment of our customer's overall financial position is critical to our success. We depend on financial statements that are clear, consistent and provide full disclosure to aid in our underwriting process. We depend on revenue recognition methods that accurately reflect and measure, on a consistent basis, the contractor's business activity and properly accounts for the very unique characteristics of a construction contract.

Construction contractors operate in a complex and dynamic environment. As a provider of surety credit to construction companies, we are concerned that the proposed guidelines do not adequately address the very unique nature of the construction industry. Examples of its unique nature include but are not limited to the long term nature of construction contracts, the multiple changes that occur during the contract period that may or may not include pricing at the time of the change, financial incentives / penalties for early or late completion of contracts and oversight of numerous subcontractors who execute various performance obligations by the general or prime contractor. The prime contractor maintains the responsibility for the work of the subcontractors regardless of the sub's ability to complete their portion of the work. Substantial cost overruns could result if the subcontractor defaulted. Various contract provisions may cap total change order reimbursement, afford owner allowances for options or additions to contracts with no additional compensation to the contractor or provide price escalations / reductions for changes in key commodities used to complete the contract making it difficult to assign an estimated transaction price without undue burden.

We believe the proposed guidelines will lead to inconsistency and relies on increased judgment in revenue recognition as compared to the current standards established by the AICPA's SOP 81-1. Significant additional guidance and disclosure will be required to help ensure consistent treatment of the policies prescribed by the proposed guidelines, particularly in the following areas:

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- Identification, satisfaction and measurement of Performance Obligations.
- Measurement and allocation of the transaction price to separate performance obligations.
- When and how to re-measure Performance Obligations with regard to change orders.

Surety Underwriters spend considerable time and resources gaining knowledge and understanding of the principles established by the SOP 81-1. Our contractor clients developed internal systems and reporting functionality in order to be in compliance with the SOP 81-1 guidelines. The proposed guidelines will require considerable investment in time and expense to adequately train our underwriting staff to gain an understanding of the proposed changes. In turn, underwriters will require additional supplementary disclosures and communication from our contractor clients and their construction financial professionals to better understand which projects reflect incremental revenue recognition from those that are deferring revenue recognition. The contractor's internal systems may need modification to accommodate the added disclosure requirements. It is most likely surety underwriters will require re-aggregation of the various performance obligations into a single economic unit of measure......the total contract. These incremental costs of compliance will be passed on to project owners and for public owners, this will ultimately cost taxpayers who fund public construction projects.

Currently, Work in Progress and Completed Job Schedules are critical tools for profit trending purposes. These schedules reflect revenue and gross profit earnings and projections on an individual contract basis consistently measured on the percentage of completion basis for each project. Analyzing the profit remaining on each uncompleted project, the underwriter can project how much additional work is needed to cover overhead, thus aiding in establishing lines of credit for the coming year. However, under the proposed guidelines it is likely, due to differing contract terms, a contractor will report revenues and earned profit differently from two economically similar projects. Company owners and construction financial professionals will have opportunities to break up contracts into various performance obligations and place revenue into those parts of the contract where profit recognition will be most advantageous for enhanced surety credit. This has the potential to lead to earnings management, undermine the credibility of financial reporting as it exists today and ultimately, leading to increased surety losses. This could negatively impact the cost, terms and the availability of surety credit. Finally, the lack of consistency and subjective application of guidelines to determine satisfaction of performance obligations makes it difficult to compare and contrast our accounts. The SOP 81-1 provides some reasonable assurance that revenue is recognized on the percentage of completion basis using appropriate, consistent measures which are primarily cost incurred to date to total estimated cost of the project.

In conclusion, SOP 81-1 properly addresses the complex and unique nature of construction accounting thus facilitating a uniform standard of surety underwriting of our contractor clients. The subjective nature of the proposed guidelines potentially increases our underwriting risk leading to increased contractor default. Our product ultimately protects taxpayer interest that fund public construction. Qualified construction contractors completing their performance obligations are in best interest of all stakeholders. Adoption of the proposed guidelines will no doubt cause additional accounting costs and upgrades to our construction contractor's internal systems. As users of financial statements, we will incur increased training costs and additional disclosure and communication efforts to aid in our understanding of what methods were used to measure revenue. The vast majority of construction contractors in the United States are private, family-owned businesses which may not be able to afford the added costs of compliance. For all these reasons, we encourage FASB to reconsider its position and exclude long term construction contracts from the proposed guidelines and retain the general principals of SOP 81-1.

Thank you for your consideration and this opportunity to provide input.

Sincerely,

Richard A. Wallet Division Surety Leader