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

Re: Revenue Recognition Exposure Draft Comments Requested

I appreciate the opportunity to comment on the Revenue Recognition Exposure Draft (ED). I comment on the ED from several perspectives, as an owner and treasurer of a large mechanical contractor operating in several states, as a practicing CPA who has served the construction industry for many years as an auditor, and as the author of the CCH's Construction Guide to Accounting and Knowledge Based Audits (an approximate 1,500 page treatise on the industry published by Wolters Kluwer, the world's largest publisher which has been updated and published annually since 2002).

While my other construction business owners and myself appreciate the efforts that the FASB and IASB has undertaken to put all of the guidance together in one pronouncement for revenue recognition, that goal cannot and should not supplant the separate accounting needs and uniqueness of any particular industry, such as the construction industry.

As you are aware, in the United States, the written foundation of current accounting guidance for the construction industry is SOP 81-1 and the AICPA Audit and Accounting Guide *Construction Contractors*, all of which has been codified and included in ASC Topic 605-35.

There have been significant changes, however, within the construction industry since the issuance of SOP 81-1 (ASC 605-35) almost 30 years ago, including but not limited to:

- The types of contracts that contractors are a party to beyond just fixed price contracts, include but are not limited to: design/build (the blending of risks typically associated with a contractor along with the agency relationships typically found in a construction management contract); construction management; construction management with guaranteed maximum price; time and material; EPC (engineering, procurement, and construction); EPCM (engineering, procurement, and construction management; FEED (front end engineering and design); numerous other contract types, with incentives and/or penalties; and partnering and/or joint ventures in various forms;

- Business combinations, mergers, consolidations, including the sale or transfer of contracts in progress;

- Technology not limited to its use in construction efficiencies, communications, equipment usage, building processes, approvals, bidding, project management, online abilities, fund transactions, accounting systems, and others;

- The effect of these issues on revenue and cost recognition, especially change orders and claims and the processes surrounding them;

- Industry, preparer, and financial statement user generally accepted modifications to the written words of SOP 81-1, especially on the issues of revenue recognition, job costing determination, change orders and claim revenue recognition. These modifications are unwritten in any official standard setter material but are known to and employed by the users in the industry;

- Joint venture accounting issues (beyond ASC 810-10 (FIN-46R) considerations); and

- the great increase in construction work between international borders and the various accounting differences for contractors between U.S. GAAP and the other international standards.

The construction industry as a whole understands that there are accounting “holes” and problems with SOP 81-1, and that the actual practices of the industry have moved away from the written word in many ways. The industry has already adapted to those “holes” and problems with their own solutions.

There is neither a current accounting crisis nor problems in the construction industry in the US (recognition, measurement, nor disclosure). The users of construction industry financial statements (i.e. the bankers; the sureties; the contraction company owners; the various state and authority prequalification and licensing organizations; to the CPA preparers and auditors) have all adapted. The accounting standard setters, however, only need to catch up to these generally accepted practices which are already in place, without modifying them detrimentally.

The ED, as currently written, that FASB and IASB propose to put in place to pull together the revenue recognition issues for all businesses, are not appropriate for the construction industry in the US. There are also significant differences between US users and international users. The surety industry plays an important role in the US but a much more limited role outside the US where letters of credit are more common for portion(s) of the construction work. The surety industry in the US is not displeased with how the current construction accounting practices and reporting are working.

SOP 81-1 was not written in haste from an inexperienced perspective. It was finalized only after the experts and users in the construction industry met for years and debated the industry issues, user needs, and nuances of practice. After its issuance, there were not modifications and change after change, as we have seen over the past few years exampled in the income tax and business combination projects. I suggest that the same prior due process practice be used to properly document the appropriate accounting needs for the construction industry rather than the current FASB/IASB rush to convergence.

Construction in the US is a significant portion of the US GDP, even though it is currently experiencing very tough economic times. Additionally, US construction companies make up a large portion of the world’s largest contractors as measured in size and expertise. Simply stated, the construction industry in the US cannot afford any detrimental negative economic impact from an accounting pronouncement. It will if the ED as currently written is adopted.

The other alternative or choice that US construction entities will have if the ED is issued as currently written is to ignore it and employ the current accounting methods. GAAP should be generally accepted, not unilaterally dictated by FASB/IASB. The current construction industry practices are generally accepted and are working very well. Let's work to catch up the written word to those practices, not try to implement new principles that have not been vetted in real world business transactions and experience.

There are several construction industry accounting national experts and organizations, such as the AGC, that would be pleased to assist the FASB/IASB in getting to better understand how the ED could be modified and improved in order to avoid negative economic effects to the construction industry. It is admitted that the current construction industry accounting practices and methods are not perfect and could use improvement. That improvement, however, must come from a full and better understanding of how our industry operates and the needs of our users.

Sincerely,

Eric P. Wallace, CPA