



October 21, 2010

Mr. Russell Gordon
Technical Director
Financial Accounting Standards Board
401 Merritt 7 Corporate Park
Norwalk, CT 06856-5116

Re: Comment Letter – File Reference No. 1820-100

Dear Mr. Gordon:

On behalf of Associated Builders and Contractors (ABC), a national organization with 77 chapters representing 25,000 merit shop construction and construction-related firms with 2 million employees, we appreciate the opportunity to provide our comments in response to the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) Exposure Draft on Revenue Recognition (Topic 605): Revenue from Contracts with Customers. We are concerned about how our members and their respective financial statements will be affected if this Exposure Draft were to become a part of the construction industries' generally accepted accounting principles. ABC believes that the proposal will reduce the standardization of methodologies, increase complexity, add costs, and result in a financial statement that does not meet the needs of users.

On June 24, 2010, FASB issued the Exposure Draft standard on revenue recognition that would significantly impact how construction companies and sureties and bankers would prepare and use construction contractors' financial statements. For example, under the new proposal, contracts themselves would no longer be the basis for computations, but instead they would be broken down into performance obligations, which are contractual obligations to deliver goods or provide services. This could present an issue for contractors when trying to determine how to divide each contract into performance obligations. In addition, rather than using incurred costs to compute revenue, contractors would only be able to report revenue once a performance obligation was satisfied, which is when control of a good or service is transferred to the customer.

The most critical component of generally accepted accounting principles is to produce financial statements that will meet the needs of the users of those statements. One of the most important users of our members' financial statements is the surety industry. Certain members of the surety industry say they will NOT embrace the proposed changes and expect they will require contract data from the construction industry in the same manner as is currently provided to them, essentially ignoring the proposed guidelines. This will ultimately compound the amount of work a contractor would have to do in order to become bonded.

The lack of clarity under these proposed changes will lead to a wide range of subjective markers to break down “performance obligations” within each contract. This is further complicated with the prevalence of change orders at various stages of the typical construction contract. Construction industry financial statements would then contain results that differ greatly from period to period, contract to contract, and company to company. A requisite for competing in today’s economic environment is a “level playing field,” and these proposed changes would eliminate same, enabling or even encouraging certain competitors to take advantage of the lack of clarity in guidance.

It is clear that the FASB and IASB have the best intentions in mind, but we do not believe this Exposure Draft meets the intended objectives as applied to the commercial construction industry. It would only serve to confuse the end users of the financial statements, increase contractors’ costs and provide a means by which financial results could be manipulated. Moreover, the standards proposed in the Exposure Draft do not fully consider the underlying operations and needs of commercial construction companies, who should be afforded an exception if these standards are approved, permitting the continued use of SOP 81-1 instead of adopting the new standard. Thirty-years of consistency and the universal acceptance of the percentage of completion method under SOP 81-1 should not be ended because there is a desire to achieve a “one size fits all” approach that does not consider the end users of our members’ financial statements.

Rather than duplicating substantive comments please recognize that ABC strongly supports the technical comments submitted by the Construction Financial Management Association to FASB in response to the Exposure Draft and their earlier written comments in response to the FASB’s “Preliminary Views on Revenue Recognition in Contracts with Customers”.

It is universally agreed by industry stakeholders that the proposed changes will increase financial statement complexity, add administrative costs and reduce the standardization of methodologies in reporting, thereby, reducing financial statement credibility. Therefore, ABC respectfully requests that the FASB recognize the need for the construction industry to be exempt from the proposed revenue recognition standard.

We appreciate the opportunity to provide our comments regarding the proposed revenue recognition changes. We look forward to working with FASB to ensure that ABC members as well as the construction industry as a whole is not negatively affected by the proposal.

Sincerely,



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