



ARCH INSURANCE COMPANY

J. Michael Pete, VP
3 Parkway
1601 Cherry Street, Suite 1500
Philadelphia, PA 19102
Phone: 215-606-1617
Fax: 866-637-5861
Email: mpete@archinsurance.com

October 14, 2010

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

Sent Via Email:
director@fasb.org

RE: Proposed Accounting Changes for Revenue Recognition Rules and Impact on Construction Contractors and their associated Sureties

To Whom It May Concern:

I am responding on behalf of Arch Insurance Company in regards to the October 22, 2010 deadline for comments on the above captioned Proposal. Arch Insurance Company is licensed in all 50 States with an A.M. Best Company rating of “A” (Excellent) – Class XV. We provide Surety Bonds to a wide array of construction contractors from relatively small companies to large contractors with nationwide operations. Also, contractors involved in a wide variety of construction trades and enterprises are supported by surety bonds from Arch Insurance Company.

The proposed changes for revenue recognition, if applied to the construction industry will have adverse consequences to both the construction industry as well as the surety industry. Please consider the following remarks in your final consideration of this proposed change:

- A single revenue recognition principle loses site of the reasons for the different standards for different industries – to address the wide diversity in how revenues are generated. The American Institute of Architects, in its Statement of Position 81-1, recognized the unique nature of construction contracts: the long term nature of the contract and the need to measure results in short-term accounting period, the considerable and necessary use of estimates and the need to continually evaluate “the uncertainties inherent in the performance of contracts.” A “one size fits all” approach is not ideal particularly for construction contracts.
- Because most construction contracts by their nature are long-term, the underlying accounting principle known as matching — expenses follow revenues — may be violated if revenues are not matched with corresponding costs.
- It appears that the Board questions the need to measure performance obligations at each financial statement date. The provision states, “Changes for other reasons (for example, changes in the price or quantity of goods and services yet to be transferred to the customer) are not significant in most contracts with customers.” This statement is hardly applicable to construction contracts. Change orders, penalty provisions, savings incentive clauses, alternate adds and deducts are examples of some common contract provisions that could change the value of the contract throughout the term of the contract.
- A revenue recognition approach based on the nature of the contract may lead to disparate treatment on a contract by contract basis. Most likely this would entail having the contractor

and his accountant conduct a fact specific analysis for each contract to determine if the customer “controls” the partially completed improvement to ultimately determine when revenue is recognized. The user of the audit, including the Surety, is left analyzing contracts that are treated differently, placing additional burden and expense on the contractor in order to facilitate proper analysis of the financial statements.

- In addition to the burden and cost on contractors, a significant accounting change such as this would have large cost effects to sureties. Current analytical programs would need to be redone to convert from current percentage of completion analysis. Also, throughout the Surety industry, significant training expense would be required to instruct underwriters the new accounting methods and impact of the change brought about by this Proposal.
- Finally, until the new method commenced by the Proposal is fully implemented and adopted, Sureties may require that contractors offer their financial information on both the traditional percentage of completion revenue recognition method, alongside the new method of the Proposal. This will obviously result in a very significant cost and expense increase over current levels.

On behalf of Arch Insurance Company, we respectfully request consideration of our views and preliminary objection to the Proposal as this will have an adverse impact on our contractor clients cost of business, along with adverse impact upon our costs associated with Surety financial analysis of our contractor clients.

Very truly yours,
J. Michael Pete, Vice President
Arch Insurance Company