

**October 22, 2010**

**Financial Accounting Standards Board**

401 Merritt 7

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Attn: Technical Director – File Reference No. 1820-100

(Via Electronic Mail)

**Re: Comments on the FASB and IASB's Exposure Draft on Revenue Recognition from Contracts with Customers**

As a CFO for a privately held construction company, I am extremely interested in and concerned about the Boards' project on revenue recognition and it is my desire to ensure that high-quality accounting for the construction industry is maintained.

I believe that for private companies whose revenues consist of providing goods and services under long-term contracts, and particularly construction contracts and continuous service contracts, that it is extremely important to their financial statement users to be able to discern the achievement of projected profit margins from their contracting operations. Accordingly, custom and tradition in reporting periodic revenue over the life of a long-term contract are more important to private company users than achieving a single comprehensive revenue standard based on a unified theory. In my experience, private company financial statement users prefer to maintain the traditional matching principle -- i.e., the matching on the face of the income statement of those costs associated with revenues in a consistently applied process instead of the ED's proposed standard that would (a) interrupt the concept of earnings recognition over the life of a long-term contract with the ED's definition of control, and (b) interrupt the concept of matching with the ED's independent prescription for recognizing costs as assets or expenses.

I have significant concerns over how the new standard may be applied to The Jaynes Companies. The current guidance in the Exposure Draft for recognizing revenue at the "performance obligation" level presents significant challenges for my company and carries the very real risk of adverse economic effects on our industry stemming from an inferior method of revenue recognition. The inherent subjectivity of the prescribed process for identifying and allocating revenue to performance obligations will lead to less consistency and transparency in the financial reporting process in the industry. The inherent subjectivity also opens to the door to financial engineering and outright manipulation. There are significant concerns in the surety community about any approach that diminishes consistency and increases subjectivity. As a result, surety credit will become marginally more difficult to obtain in the future in order to offset the risks associated with inferior accounting rules.

I believe the reason that the Board is hearing negative feedback from the construction industry has to do with the fact that the proposed revenue recognition rules are divorced from economic reality. But I also believe that it is possible to make relatively modest refinements to the guidance under the proposed standard in order to align the revenue recognition rules with economic reality.

Specifically, I request that the Board recognize that in most cases, ALL construction activities for a given project are highly interrelated and have overall risks which are inseparable. Therefore, construction companies lack a basis for determining the price at which it would sell the components of a contract separately and as such characteristics of distinct profit margin will not be met (in most cases) and hence there are typically no more than a single performance obligation for most construction contracts.

I concur with the guidance in the Exposure Draft regarding continuous transfer and we believe it is appropriately reasoned.

With respect to determining the contract price, I believe that variable consideration (i.e. bonuses or penalties) should be excluded from the calculation of contract revenue until such time as their realization is reasonably assured. Until that time, the inclusion is highly subjective and as a matter of course, I believe that most users of financial statements will not want to see such amounts included in revenue until their realization is reasonably assured.

While I appreciate the Board's efforts to create a single standard to apply to virtually all industries and transactions, I maintain a belief that the key principals of the proposed standard need to be interpreted in such a way to preserve the key tenets of SOP 81-1. Otherwise, the Board runs the very real risk of creating inferior accounting rules when applied to the construction industry.

Finally, I ask that private companies be given at least one additional year to comply with the proposed standard once it becomes effective for public companies.

Kindest regards,

A. Wayne Davenport  
CFO & Secretary/Treasurer  
The Jaynes Companies