January 31, 2011

via email: director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1890-100, Effective Dates and Transition Methods

Dear Sir or Madam:

In response to your Discussion Paper, Effective Dates and Transition Method, released on October 19, 2010, I am submitting the following comments on behalf of the Associated General Contractors of America (AGC).

AGC is the leading association for the construction industry in the United States. AGC represents more than 33,000 firms, including 7,500 of America’s leading general contractors, and over 12,500 specialty-contracting firms. More than 13,000 service providers and suppliers are associated with AGC through a nationwide network of 95 chapters. AGC contractors are engaged in the construction of the nation’s commercial buildings and industrial facilities, highway and public transportation infrastructure, water and wastewater systems, flood control and navigation structures, defense installations, multi-family housing, and more.

The membership of AGC is substantially privately held enterprises that range in size from annual revenues less than $10 million to multi-billion dollar operations. Our members are predominately construction contractors who perform contracts as a general or prime contractor but also include a significant constituency of specialty or subcontractors. The comments below are intended to express the input from these entities. The significant users of contractor’s financial statements include sureties, banks, regulators, and shareholders (most of which are active in the businesses). Construction contractor’s financial statements are generally prepared in accordance with U.S. GAAP and are subjected to attest at either an audit or review level. To the extent that our comments relate to audit concerns, we have reached out to both our contractor members and our member accounting firms for their input.

AGC has issued comment letters on the FASB’s Revenue Recognition and Leases Exposure Drafts. Our concerns regarding the approach to these issues are fully expressed in those letters, and, accordingly, our comments below are limited to additional input pertaining to issues relating to implementation
process, cost, and timing. The Financial Statement Presentation Exposure Draft will have a significant impact on construction contractors and is included in our comments below.

Further, the current projects on financial instruments and revisions to the accounting for derivative instruments and hedging activities, including netting of financial instruments, financial instruments with characteristics of equity, insurance contract, and comprehensive income are accounting transactions that have limited application in our typical construction entity. Our comments exclude these projects unless noted.

General Timing

AGC is a strong supporter of getting it right rather than getting it quickly. The present timetable published under the MOU has all appearances of being overly optimistic given the complexity of the standards being promulgated along with changes in the FASB Board. We recommend that the project schedules be re-evaluated so that these standards are appropriately field-tested to avoid tinkering with them after they are issued. Some of the changes resulting from the Board’s consideration of comments may be so significant that re-exposing the matter, or an element therein, should be considered even if doing so would undoubtedly increase the timeframe for implementation.

While this Discussion Paper deals with several significant projects, we hope the Board will consider the cumulative impact of all of the projects that are currently under consideration for modifying U.S. GAAP, including any of the challenges to preparers, users, and auditors, as well as, in some cases, changing the economics of transactions. While any one or two of these projects could be implemented within reasonable time, the number of changes, coupled with the comprehensive nature of the changes, will be a significant challenge to appropriate implementation.

As AGC has previously expressed and as supported by other commentators, the proposed standards may have elements that could be withdrawn without harming the utility of the recognition or disclosure of information to users. The implementation timing and cost is less of a challenge to all stakeholders the more simplified the changes become. As instructed by the ED, we have assumed the standards would be adopted as exposed.

Preparing for and Transitioning to the New Requirements

AGC members anticipate significant time and cost requirements to fully implement the Revenue Recognition and Leases standards. These impacts include the following:

- Education of accounting personnel and management
- Design of software systems to monitor and report under the new guidance
- Installing, training, and implementing additional systems
- Education of operations personnel such as estimators, project management, etc. to manage and collect appropriate data and projections
• Increase in the number of transactions subject to individual measurement and reporting
• Educating users of financial statements so businesses are not adversely impacted by changes
• In the case of Revenue Recognition, maintaining current GAAP systems to manage the business and report to sureties on a contract based performance obligation
• Estimates such as allocation of revenue and costs to separate performance obligations or estimating the term of a lease obligation may be outside the current competency of auditors leading to higher costs from engaging external experts
• Addressing impact on taxation and cash flow under the revenue recognition of accelerating U.S. GAAP recognition of contingent compensation
• Identifying transactions classified as leases under the new standard
• Addressing U.S. tax treatment of leases vs. U.S. GAAP treatment
• Addressing impact of both retrospective and current implementation of lease accounting on FAR compliant contracts
• Educating regulators and in some cases modifying regulatory requirements that arise from changes in financial statement presentation

Because revenue recognition and lease accounting in the construction industry often involve several years impact, and transactions may neither be clearly identifiable nor documented on a concurrent basis, retrospective treatment will require incrementally more time and cost to accumulate and implement. Retrospective application for revenue recognition is not operational. While we understand that public companies need to present comparative information for investor purposes, we believe that retrospective application for private company users is of questionable value, and, therefore, we request an exemption for private companies.

AGC recommends that revenue recognition be implemented prospectively for contracts entered into after the effective date of the standard.

AGC recommends that lease accounting be implemented prospectively for leases entered into after the effective date of the standard.

AGC recommends that the financial statement presentation be implemented on a retrospective basis with a limitation of no more than 2 years. In light of the retrospective implementation, we recommend that the effective date be delayed for two full reporting cycles for private companies to facilitate transition on a concurrent basis.

Effective Dates for the new Requirements and Early Adoption

A single date of adoption has appeal only if the date is substantially deferred beyond the publishing of all of the standards. For example, if the Board finalizes all of its standards by the end of 2011, an implementation period of 2012-2014 followed by an effective date for 2015 may be feasible and cost effective. This extended implementation is particularly beneficial for the systems and analysis
requirements of construction contractors and other industries that have long lead time/performance type contracts.

On the other hand, it does not seem appropriate to hold all proposed standards hostage to one or more projects that might get caught up in delays. A sequential approach would be a better resolution in this event. In no event should the lease standard apply to private companies prior to years beginning after December 15, 2013.

Whether the Board adopts a single date or a sequential approach, AGC supports a 3-year implementation period for the construction industry and other performance type contract entities. We also support a minimum of one-year delay of the effective date for private companies after the effective date for public entities.

We believe that as the objective of revisions to standards is better accounting and reporting that early adoption should be permitted (especially if the extended implementation period is adopted) for companies that have the capacity. If they have the capacity, new business entities should be given the option to adopt standards early because it is not cost effective to adopt old standards that will require near term restatements.

International Convergence Considerations

AGC generally supports alignment of U.S. and international GAAP. However, convergence is not a priority over an orderly consideration of standards and reasonable implementation timeframe.

We do not believe it is essential for the FASB and IASB effective dates and transition methods to align. In some instances, FASB changes are more significant than IASB, and it is reasonable to allow more time for the U.S GAAP implementation process than might be appropriate for international implementation; conversely if IASB changes are more significant.

Effects of Possible Changes to Standards Setting for Private Entities

Most construction contractors are private companies. It is reasonable to assume that a separate private company standards board would have some modifications to the standards for revenue recognition and leases. For example, AGC would support a private company exemption from the lease accounting for leases that have a term that is less than the operating cycle of the business. AGC believes it would be a disaster for private companies to go through the rigors and costs of fully implementing the new standards and shortly thereafter be exempted from recognition or disclosure elements and compelled to go through additional changes and likely restatements.

We recommend that none of the proposed standards be implemented until a decision is made on the recommendations of the Blue-Ribbon Panel. If a new board is constituted, AGC recommends that its first order of business be to assess the impact of the proposed standards and rule on them before any
other projects are undertaken. After this due process, appropriate implementation and effective dates can be set for private companies.

In particular, private construction companies with the requirement to provide surety bonds will be obliged to follow the financial statement measurement preferred by their surety company—be that U.S. GAAP, IFRS, or U.S. Private Companies GAAP. Appropriate transition and implementation timing will be required for businesses to work through these alternatives.

AGC appreciates the opportunity to express our views and continued dialogue as you assess the alternatives to improving financial reporting standards.

Sincerely,

Stephen E. Sandherr
Chief Executive Officer