Robert F. Boro  
Senior Vice President  
Director of Safety

October 14, 2010

Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116  
Attn: Technical Director – File Reference No. 1820-100

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

Dear FASB Technical Director:

As a surety professional arranging credit to the construction industry, we are extremely interested in the Boards’ project on revenue recognition, and it is our desire to ensure that high-quality accounting for the construction industry is maintained.

We have significant concerns over how the new standard may be applied to our industry. The current guidance in the Exposure Draft for recognizing revenue at the “performance obligation” level presents significant challenges for us 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 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.

But, we also believe that it is possible, with relatively modest refinements to the guidance under the proposed standard, to align the revenue recognition rules with economic reality. Specifically, we request that the Boards 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 they 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.
Some additional concerns:

- Construction contracts tend to span longer time durations and are susceptible to complex modifications versus supply type contracts and other vendor purchase order structures.

- The amount of work and supporting infrastructure to adhere to the changed revenue recognition structure that contractors will need to employ, will be too taxing to the majority of the industry thus driving up costs, lowering profitability, in turn lowering taxable income and causing companies to leave industries where competition is essential.

- Owners, banks and surety companies are accustomed to using the percentage-of-completion method of accounting to monitor a construction project’s progress and financial performance. Under the new standard, performance obligations may not be comparably reported from one contractor to another.

- Due to the greater complexity of treating each performance obligation separately and the increased use of estimates, compliance costs will rise for the contractor, the outside auditors, the sureties and the banks.

While we appreciate the Boards’ efforts to create a single standard to apply to virtually all industries and transactions, we 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 Boards run the very real risk of creating inferior accounting rules when applied to the construction industry.

Additionally, whatever changes occur, we ask that private companies be given at least one additional year to comply with the proposed standard once it becomes effective for public companies.

Best regards,

Robert F. Bobo
Director of Surety