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To: [Director - FASB](#)
Subject: Comment Letter- File Reference No. 1820-100
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As a Surety Bond Producer, I specialize in providing surety bonds to construction and other companies and individuals for construction and other commercial purposes. I am writing to express my concerns on the FASB and IASB Exposure Draft on Revenue Recognition from Contracts with Customers. As expressed in the letter to you dated 10-13-10 written by NASBP, the new standard recognizes revenue at the performance obligation level, a decided departure from the approach of the percentage completion method, which has long-prevalled in and is grounded in the economic realities of the construction industry, I share NASBP's serious concerns that such a change will have wrenching and costly consequences on construction firms. Most of my clients are construction firms who are smaller, private, localized businesses which perform locally or regionally, not nationally or internationally, and they have been severely challenged during this recessionary period. To that end, I respectfully request that FASB temper such a dramatic shift in revenue recognition standards by

- (1) preserving in the new standard the critical tenets of SOP 81-1, also known as ASC 605-35, and
- (2) delaying the adoption of the new standard for private businesses at least twelve to twenty-four months past the effective date for public businesses to permit private businesses to understand its impact more fully and to implement any necessary changes and associated costs in a stronger economic environment.

I totally agree with NASBP in believing that the percentage of completion method of accounting best serves the interests of construction firms and the credit businesses that serve those firms. The performance obligation method does not represent an improved accounting method and that its adoption must be carefully thought-out and managed to mitigate the real possibility of engendering a number of unintended and undesirable consequences, such as injecting heightened subjectivity and confusion in the financial reporting of construction firms and placing higher costs and administrative burdens on such firms.

I also agree that the proposed performance obligation method would, in theory, permit dividing a construction contract into multiple performance obligations. Furthermore, different contracts might vary in the number of identified performance obligations for each contract. Permitting such an outcome ignores the essential nature of construction contracts, each of which comprises a set of inextricably related activities, and makes achieving consistency in financial statements for construction firms a near impossibility.

Unlike the proposed performance obligation method, which might focus on any number of performance obligations within the construction contract, the percentage of completion method considers the day-to-day realities of construction businesses. By recognizing revenue as costs are incurred during the performance of a construction contract, the percentage of completion method recognizes that the construction business has undertaken an obligation to complete the entire, interrelated scope of work called for in its contract, that the risks within the contract are inseparable, and that the goods and services to be delivered flow continuously throughout the duration of the contract.

Accounting systems, business systems, and tax rules for construction businesses all are predicated on use of the percentage completion method of accounting. Likewise, in making credit evaluations, sureties are interested in understanding and analyzing an individual contractor's performance relative to the specific contracts the contractor has undertaken. Sureties, in fact, make credit decisions on a contract-by-contract basis. The departure from the percentage of completion method of accounting, which anticipates the whole contract, will mean that sureties likely will request additional financial information, placing increased burdens and costs on construction businesses, with particular impact on smaller construction firms. Those construction firms that cannot afford to bear such burdens may find surety credit more difficult to obtain or to maintain.

I implore FASB to consider and to take into account the needs and practices of the U.S. construction and surety industries when promulgating the new revenue recognition standard so that the quality of financial reporting for

construction firms is not jeopardized. By promulgating guidance on the new revenue recognition standard that recognizes and integrates the fundamental tenets of SOP 81-1, FASB can provide guidance which more accurately reflects the economic realities of construction businesses and which will promote the continued consistency and quality of construction business financial statements.

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