ACEC

AMERICAN COUNCIL OF ENGINEERING COMPANIES

100 Years of Excellence

October 20, 2010

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

Re: File No. 1820-100

On behalf of the American Council of Engineering Companies (ACEC) – the national voice of America's engineering industry – I am writing to provide our comments on the joint Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) exposure draft entitled *Revenue from Contracts with Customers*. We appreciate the opportunity to highlight our concerns about how the proposal would impact the engineering and construction industries.

ACEC members – numbering more than 5,500 firms representing hundreds of thousands of engineers and other specialists throughout the country – are engaged in a wide range of engineering works that propel the nation's economy, and enhance and safeguard America's quality of life. Changes to revenue recognition standards involving contracts would have a significant and particular impact on engineering and construction firms because of the long-term nature of projects in the built environment.

Although the goal of the proposal is to harmonize accounting practices and facilitate the comparison of firms within and between industries by users of financial statements, ACEC is concerned that the new approach would require increased subjectivity that would make financial statements less comparable across similar companies, and therefore, less useful. Moreover, there would be a substantial administrative burden for firms associated with overhauling their accounting systems and restating past financial statements. This burden would be especially challenging for small firms.

Under current generally accepted accounting principles, engineering firms typically use the percentage of completion method to recognize revenue from an entire contract. The exposure draft would change this approach and require that contracts be separated into performance obligations. This proposed change would affect engineering firms in several ways. Separating contracts into several pieces that each must be separately tracked and reported would present a significantly increased accounting burden, especially for large firms with thousands of contracts. In addition, in the case of design-

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build projects, the various pieces of a construction contract, such as engineering, are rarely negotiated separately. If the client chooses to hire a single firm for both engineering and construction services, that contract should not be broken up for accounting purposes. There is also the problem of increased subjectivity regarding what activities should be considered as separate performance obligations. For example, the design phase of a project could be separated into conceptual design, feasibility studies, design development, contracting support, and construction services. Maintaining a single performance obligation for the contract as a whole is a more clear and consistent approach for both firms and users of financial statements.

If engineering is considered a separate performance obligation, that revenue might not be recognized for many months or until the project is completed because significant engineering activity occurs concurrently with construction, including inspections, change orders and redesign, requests for clarification of design, and commissioning services. This would distort the picture of an engineering firm's value and could damage a firm's standing with creditors, financial institutions, and clients. A firm's revenues could appear unrealistically uneven and it would be more difficult to evaluate a firm's value over a period of several years.

Some of these problems could be mitigated if the percentage of completion method for recognizing revenue could continue to be used on construction contracts as a whole or on each performance obligation. However, the exposure draft only allows for the use of the percentage of completion method if there is a continuous transfer of control of the work-in-progress to the customer. The problem of subjectivity is evident here as well because judgment is required when assessing the criteria that should be considered when determining whether control has transferred or whether continuous transfer of control is appropriate for the contract or the performance obligation(s).

The exposure draft does not address the impact on joint ventures, which are an extremely common way to perform construction projects. Although one firm would do the accounting for the joint venture, there could be disparities in reporting if the individual firms that are parties to the joint venture account for their revenues differently. It is unclear how these issues would affect the users of financial statements.

The exposure draft proposes significant disclosure requirements for each performance obligation. In addition to providing substantial information about items such as costs, margins, and the roll-forward schedule for contract asset accounts, firms would have to explain in the disclosures their judgments about how they implemented the proposals in the exposure draft. When applied to separate performance obligations for each of potentially thousands of contracts, these requirements would add substantially to the administrative burden of the proposals.

ACEC is also concerned about implementation of the proposed changes. The exposure draft proposes that firms would apply the new standards retrospectively. For a large public firm, that would entail restating five years of financial statements. A firm of this size is likely to have thousands of contracts at any given time, making revision of the financial statements and how revenue from these contracts is reported completely impractical. Although ACEC understands that FASB and IASB would like to have financial statements that fully reflect the new standards within a short timeframe, that goal needs to be balanced against feasibility for firms. For these reasons, ACEC strongly recommends that if the exposure draft is adopted by FASB and IASB, the standard be applied prospectively.

Finally, if these changes are adopted, ACEC strongly recommends a lengthy implementation period in order to allow engineering firms sufficient time to comply. Implementing the kind of changes FASB and IASB have envisioned would require modifications to IT and accounting systems, as well as significant staff training. It would be challenging to allocate scarce resources to this accounting change without significant lead time.

It is clear that the proposed changes would affect industries differently, and would have a particular impact on engineering and construction firms. ACEC respectfully requests that FASB and IASB reconsider their effort to apply the same approach to all industries and instead maintain the existing specific rules for the construction industry that have worked well.

Sincerely,

Katharine Mottley

Katharine Mottley
Director of Tax and Regulatory Affairs