

July 28, 2006

Mr. Lawrence W. Smith
Director, TA&I - FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 3

Re: Proposed FASB Staff Position No. AUG AIR-a, "Accounting for Planned Major Maintenance Activities"

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. AUG AIR-a, "Accounting for Planned Major Maintenance Activities" (the "proposed FSP").

We support the issuance of the proposed FSP as a final FASB Staff Position. However, we believe that the following aspects of the proposed FSP would benefit from further clarification and revision. Our specific comments are set forth below.

Effective Date and Transition

The transition guidance provided in the proposed FSP (see paragraphs 6–7) requires retrospective application for all financial statements presented, unless such application is impractical. In applying the proposed FSP retrospectively, does the Board intend to require entities that have (1) utilized the accrual method of accounting for planned major maintenance activities, and (2) included those costs as a component of their overhead capitalized to inventory, to adjust their inventory balances and related accounts to reflect the removal of those costs from inventory? In such cases, we believe that even though retrospective application may be achievable, it may not be justifiable from a cost/benefit standpoint. We believe that preparers are in the best position to identify other scenarios in which requiring retrospective application may not be justifiable from a cost/benefit standpoint. Therefore, we recommend that the Board ensure that it has gathered sufficient preparer input in reaching a final conclusion as to whether retrospective application should be required.

If the Board determines that full retrospective application should be required, the final FSP should explicitly state that the transition guidance is consistent with the guidance provided in FASB Statement No. 154, *Accounting Changes and Error Corrections*, when dealing with a change in accounting principle. Additionally, Statement 154 provides additional guidance on assessing whether retrospective application is impracticable, which would be useful for financial statement preparers.

The proposed FSP should also clarify that its impracticability exception does not limit an entity's ability to choose any of the other acceptable methods in accounting for planned major maintenance activities. For example, if upon adoption of the final FSP an entity elects the built-in

overhaul method, but determines that applying that method retrospectively is impractical, that entity would not be required to choose a different method in which retrospective application would be possible (i.e., in this example, the deferral method or direct expense method).

Elimination of the Accrual Method

The guidance on interim reporting in APB Opinion No. 28, *Interim Financial Reporting*, paragraph 16(a) states:

When a cost that is expensed for annual reporting purposes clearly benefits two or more interim periods (e.g., annual major repairs), each interim period should be charged for an appropriate portion of the annual cost by the use of **accruals** or deferrals. [Emphasis added]

The proposed FSP would benefit from a discussion on its interaction with Opinion 28 in light of the proposed FSP's prohibition of the use of the accrual method of accounting for "annual major repairs" (i.e., planned major maintenance activities).

Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Dawn Trapani at (203) 761-3697.

Yours truly,

Deloitte & Touche LLP

cc: James Johnson