



KPMG LLP
757 Third Avenue
New York, NY 10017



LETTER OF COMMENT NO. 9

July 31, 2006

Director, Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed FASB Staff Position AUG AIR-a, "Accounting for Planned Major Maintenance Activities"

Dear Director:

We appreciate this opportunity to provide our comments on the proposed FASB Staff Position AUG AIR-a, "Accounting for Planned Major Maintenance Activities" and we support the Board's efforts to provide guidance on the accounting for planned major maintenance. While we agree with the Board's decision to eliminate the accrue-in-advance method of accounting for planned major maintenance, we also believe that the Board should take the additional step of eliminating the deferral method. We support the continued use of the direct expense method and the built-in overhaul method.

We agree that the accrue-in-advance method of accounting for planned major maintenance activities results in the recognition of liabilities that do not meet the definition of a liability and, therefore, we support the proposed prohibition. Additionally, the deferral method potentially results in the recognition in the financial statements of the same asset more than once and therefore also should be eliminated as an accounting alternative. For example, an entity acquires equipment that is used in its manufacturing process and depreciates the cost of the equipment over its 15 year estimated useful life. Every five years the entity performs major maintenance activities including replacing components of the equipment. Under the deferral method, the entity would capitalize the cost of the maintenance activities and amortize that cost to the next planned major maintenance date. As a result, the entity's financial statements would include both the original cost and the replacement cost of the replaced components and related major maintenance activities. Accordingly, we recommend that the Board also prohibit the use of the deferral method of accounting for planned major maintenance.



Director, FASB

July 31, 2006

Page 2

The Board also should clarify the effect of the proposed guidance on interim financial reporting, permit entities to early-adopt the provisions of the FSP regardless of whether interim financial statements have been issued for the year, and consider providing additional guidance on the transition provisions of the proposed FSP. The remainder of our letter addresses these recommendations in more detail.

Interim Reporting

The Board should clarify the effect of the proposed guidance on interim financial reporting. APB Opinion No. 28, *Interim Financial Reporting*, permits an entity to recognize the costs of annual major repairs in each interim reporting period of a year “by the use of accruals or deferrals.” Although the use of accruals for interim reporting is inconsistent with the Board’s conclusion that an accrual for planned major maintenance does not meet the definition of a liability, we do not believe that the Board intended to change the interim reporting guidance in APB 28. As such, we read the proposed FSP to continue to permit the use of the accrual method for interim periods within the annual period in which the cost will be incurred. If that is not the Board’s intent, the Board should clarify in the final FSP how the guidance affects interim financial reporting.

Permit Early Adoption

The Board should permit entities to early-adopt the provisions of the proposed FSP regardless of whether interim financial statements have been issued for a fiscal year. Entities currently are permitted to change from the accrue-in-advance method to another method permitted by GAAP as a voluntary change in accounting principle if the new method of accounting is consider preferable. The SEC staff has indicated that it would not object to a conclusion that a change to a permitted method of accounting for planned major maintenance activities from the accrue-in-advance method is preferable.¹ Accordingly, the proposed FSP should not prohibit an entity from changing from the accrue-in-advance method to a preferable method of accounting for planned major maintenance prior to the FSP’s effective date. Additionally, permitting early adoption of the proposed guidance would not adversely affect company-to-company comparability considering the proposed guidance continues to permit a choice of accounting policies for planned major maintenance activities. Accordingly, a final FSP should permit an entity to early adopt the provisions of the FSP in any period of its fiscal year.

¹ EITF Topic No. D-88, *Planned Major Maintenance*.



Director, FASB

July 31, 2006

Page 3

Transition Guidance

The Board should provide additional guidance on the transition provisions of the proposed FSP. We believe that retrospective application of the proposed guidance may be difficult when an entity adopts the built-in overhaul method of accounting or has included the costs of major maintenance activities in its inventory. Accordingly, we believe that the Board should consider a transition accommodation to those entities that adopt the built-in overhaul method by allowing them to use a current cost estimate of future planned major maintenance activities if the fair value of those activities at the original acquisition date cannot be readily determined. Additionally, the Board should clarify the impact of adopting the proposed FSP on accounting for costs allocated to inventory, including whether a change in the treatment of planned major maintenance costs as an element of inventory costs should be treated as a direct effect of adopting the guidance in the proposed FSP.

* * * * *

If you have questions about our comments, please contact Mark Bielstein at (212) 909-5419 or Landon Westerlund at (212) 909-5553.

Sincerely,

KPMG LLP