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Mr. Lawrence W. Smith  
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Financial Accounting Standards Board  
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Proposed FASB Staff Position  
*Accounting for Rental Costs Incurred during a Construction Period*

Dear Mr. Smith:

We appreciate the opportunity to provide you with our comments on the Proposed FASB Staff Position, *Accounting for Rental Costs Incurred during a Construction Period* (the "Proposed FSP"). We commend the FASB on its efforts to promptly address the divergent views that exist among lessees regarding the capitalization of rental costs associated with ground and building operating leases during the construction of an asset that is directly related to the leased property.

We view the conclusion reached by the FASB in its Proposed FSP (to expense rental costs of operating leases during the construction period) with mixed reactions. Our mixed reactions are due principally to the inherent limitations in existing accounting standards, specifically, the artificial delineation of operating versus capital leases, the matching principles based standards of FAS 34, *Capitalization of Interest Costs*, and FAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, and the lack of accounting guidance related to property, plant, and equipment including the issues referred to the FASB by AcSEC for consideration. Without a reconsideration of the conflicts in this literature, we do not believe that we will truly attain consistent accounting for the same types of transactions among companies across all industries. We do, however, believe that, in the short term, the accounting guidance set forth in the Proposed FSP will improve the reporting of these transactions by promoting greater consistency in the accounting for rental costs during periods that lessees are constructing leasehold improvements for their own use, while removing what we continue to believe is a conflict with SOP 98-5, *Reporting on the Costs of Start-Up Activities*.

We further believe the FASB should address whether the Proposed FSP would impact EITF 97-10, *The Effect of Lessee Involvement in Asset Construction* ("EITF 97-10"). EITF 97-10 notes that "land carrying costs, such as interest or ground rentals incurred during the construction period, are considered to be part of total project costs, consistent with GAAP". Further, we believe that any resulting change to EITF 97-10 should include the appropriate transition.

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Again, thank you for the opportunity to provide you with our comments on this important FASB Staff Position. We would be please to discuss our comments with you further at your convenience.

Very truly yours,

*Ernst + Young LLP*