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

Proposed FASB Staff Position FAS 13-b, "Accounting for Rental Costs Incurred during a Construction Period"

Dear Mr. Smith:

We appreciate the opportunity to comment on proposed FASB Staff Position FAS 13-b, "Accounting for Rental Costs Incurred during a Construction Period." The guidance in the proposed FSP, if finalized, will create differences between the accounting for rental costs and the accounting for other types of holding costs incurred during a construction period. Although we understand the Board's interest in addressing the issue of capitalization of rental costs incurred during the construction period of an asset, we believe the Board should do so only as part of a broader project to address the cost accumulation model for long-lived assets which would address the accounting for all types of holding costs including, but not limited to, property taxes, insurance, rent, and interest incurred during a construction period.

We believe the accounting for rental costs incurred during construction should be consistent with the accounting for other construction-period costs such as property taxes, insurance, and interest. Current authoritative literature requires capitalization of these other holding costs for certain types of construction projects. Paragraph 6 of FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, requires the capitalization of costs incurred for property taxes and insurance during the periods in which activities necessary to get the property ready for its intended use are in progress. Paragraph 6 of FASB Statement No. 34, Capitalization of Interest Cost, states that the historical cost of acquiring an asset includes the costs necessary to bring it to the condition and location necessary for its intended use, and if a period of time is required, interest costs incurred during that period are part of the historical cost of the asset. Paragraph 7 of Statement 34 additionally notes that the objectives of capitalizing interest are to more accurately reflect the total investment in the asset. Rental costs incurred during the construction period of an asset clearly meet these criteria as well. As a result, the Board's conclusion as proposed in the FSP would result in an inconsistent treatment for similar costs incurred during the construction period.



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Accordingly, the Board should not change current practice regarding rental costs during construction without addressing the accounting for other construction-period costs.

We believe that prohibiting capitalization of rental costs incurred during construction of an asset without first more broadly considering the accounting for all types of holding costs will increase, rather than reduce, the complexity in the accounting literature because similar types of holding costs would be accounted for differently. Paragraph 6 of the proposed FSP states that "[t]here is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense." However, the same assertion could be made with respect to other types of holding costs. For example, one might assert that there is no difference between property taxes incurred during a construction period and property taxes incurred outside of a construction period.

In Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction," the Emerging Issues Task Force previously concluded that "[l]and and 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." The Board's conclusion in the proposed FSP is contrary to that guidance previously developed by the EITF. Accordingly, if the Board proceeds with a final FSP requiring rental costs to be expensed during a construction period, that EITF guidance must be amended as well.

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If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact either Mark Bielstein at (212) 909-5419 or Kimber Bascom at (212) 909-5664.

Sincerely,

KPMG LLP