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AUGAIR-A

July 31, 2006

LETTER OF COMMENT NO. 6

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

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

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed FASB Staff Position No. AUG AIR-a, *Accounting for Planned Major Maintenance Activities* (the "proposed FSP"). We agree that the accrue-in-advance method of accounting for planned major maintenance activities (PMMA), as described in the AICPA Industry Audit Guide, *Audits of Airlines* (the "Airline Guide"), should be eliminated, since it results in the recognition of a liability before the costs associated with the PMMA meet the definition of a liability under FASB Concepts Statement No. 6, *Elements of Financial Statements*.

We recommend that the Board, in the long term, consider addressing the appropriateness of the other accounting alternatives for PMMA, along with the accounting for cost capitalization, depreciation, and repairs and maintenance. By providing guidance on these matters, we believe that diversity in practice will be further narrowed, thereby increasing the consistency and comparability of reported financial information across companies and industries. We recognize that the complexity of these issues, combined with the importance and urgency of numerous other FASB projects, is likely to prevent the Board from addressing these matters in the near term. In the interim, we accept the FASB's decision to narrowly address the accounting for PMMA by eliminating only the accrue-in-advance method; this elimination furthers the convergence of U.S. GAAP with International Accounting Standard 16, *Property, Plant and Equipment,* which is a welcome benefit.

We have the following comments for your consideration.

General

We believe that the guidance in the proposed FSP might appear inconsistent with the accounting for asset retirement obligations, whereby a liability is recognized before actual costs are incurred.

For example, in paragraph A12 of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, the Board concluded that in the case of a building containing asbestos, an asset retirement obligation must be recorded before the actual cost of removing the asbestos is incurred because "existing regulations create a duty or responsibility for the entity to remove and dispose of asbestos in a special manner" and "the asbestos will eventually need to be removed and disposed of in a special manner, because no building will last forever." Likewise, some might argue that existing regulations require an asset to undergo PMMA and that certain assets will not last as long as the useful life that is assigned to those assets for depreciation purposes, unless major maintenance activities are performed (e.g., an airplane, for which regulations require specific maintenance to be performed after a certain number of flight hours). Accordingly, the asset owner can be viewed as having an obligation that should be recorded before the owner incurs the actual costs related to the fulfilment of the obligation. However, with respect to maintenance activities of this type, the FASB has indicated that the obligating event does not occur until the maintenance activity occurs and the related costs are incurred. We recommend that the final FSP discuss the FASB's rationale for this difference, which should enhance the understandability of the guidance.

Scope of the Proposed FSP

It appears that the proposed FSP would eliminate the accrue-in-advance method of accounting for costs of PMMA that are accrued for under a contractual agreement requiring such activity. For example, we understand that many leases have long-term maintenance agreements that require the lessee to perform a periodic overhaul of the leased asset. Many of these lease agreements specify that the lessees must either return the asset in a specified condition or pay to the lessor an amount that is based on the actual condition of the asset. Because the lease agreement contractually obligates the lessee, we believe it is appropriate for the lessee to accrue the major maintenance costs before the end of the lease term. We recommend that the final FSP exclude from its scope the accounting for PMMA required under a contractual agreement. In our view, when PMMA are performed pursuant to the contractual requirements of a lease agreement, it is appropriate to account for those PMMA costs in accordance with the literature that currently governs lease accounting, including paragraphs 3.66 and 3.67 of the Airline Guide.

Effective Date and Transition

Because the proposed FSP must be applied retroactively to all financial statements presented, we believe that an entity should not be precluded from adopting the guidance early, for example, for calendar year 2006, just because it has already issued interim financial statements during the year. Further, we question the appropriateness of making entities wait until their next fiscal year to adopt more preferable guidance. We recommend that the final FSP permit but not require preparers to adopt its provisions early, regardless of whether interim financial statements have been issued.

Additional Guidance Affected by the Proposed FSP

Paragraph 16(a) of APB Opinion No. 28, *Interim Financial Reporting*, will not be amended by the proposed FSP. Thus, a company could use the direct-expense method of accounting for PMMA but allocate the costs to earlier interim periods within a fiscal year. Permitting such an allocation

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may have the same affect as recording an accrual of a liability before the actual costs of the PMMA are incurred. It is not clear to us whether this is the Board's intent. We recommend that the Board consider whether to amend APB 28 as part of the final FSP.

We also recommend that the Board consider whether revisions should be made to EITF Topic No. D-88, *Planned Major Maintenance Activities,* as a result of the guidance in the FSP.

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We appreciate the opportunity to express our views on the proposed FSP. If you have questions regarding our comments, please contact Sandra Blum (973-236-4998) or Ken Dakdduk (973-236-7239).

Sincerely,

PricewaterhouseCoopers LLP