

August 18, 2005

Letter of Comment No: 9  
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Date Received:

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

Dear Mr. Smith,

McDonald's Corporation appreciates the opportunity to comment on Proposed FASB Staff Position No. 13-b, "*Accounting for Rental Costs Incurred during a Construction Period*". We believe that understanding corporate viewpoints on this matter is an important part of the FASB's process of concluding on new issues.

As previously communicated to the EITF, we believe that capitalization is the appropriate accounting treatment for lease costs incurred for both building and ground leases during the construction period. There are various references in authoritative literature that support this position included below for your consideration.

First, paragraph 6 of FASB Statement No. 34, *Capitalization of Interest Costs*, states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use and that those costs include interest costs. This statement goes on to say in paragraph 18 the capitalization period should end when the asset is substantially complete and ready for its intended use. Lease costs incurred during the construction period are certainly a piece of the historical cost of getting an asset on leased property ready for its intended use as the asset could not be constructed without leasing the property the asset will reside on.

Next, paragraphs 6 and 7 of FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, requires the capitalization of both property taxes and insurance costs during the periods in which activities necessary to get the property ready for its intended use are in progress. Like interest costs, these costs are capitalized because they are incurred as part of getting the asset ready for its intended use. This statement then goes on to say in paragraph 7 that project costs clearly associated with the acquisition, development, and construction of a real estate project shall be capitalized as a cost of that project. Lease costs during the construction period of a real estate project involving a land and/or building lease should be characterized as a project cost associated with the development of that real estate project and therefore should be capitalizable. It seems illogical to capitalize "occupancy costs" such as taxes and insurance, but not the rent.

We disagree with the FASB Staff Position that there is no distinction between payments made during the construction period for the right to use a leased asset and payments made after the construction period for that same right. We believe there is a difference in the use of that right and therefore there should be a difference in the accounting. During the

construction period the rental costs (as well as other occupancy costs) are incurred to get the property ready for its intended use with no corresponding revenue being generated. The right to use the leased asset post-construction in the operation of a business results in revenues and therefore expensing rental and other occupancy costs results in a proper matching.

In summary, we believe capitalizing the lease costs described above during the construction period most properly reflects the cost of the constructed assets and seems to be appropriate based on the relevant authoritative literature and treatment of similar costs. However, if the FASB concludes that these rental costs must be expensed, we recommend an effective date of the first reporting period beginning after December 15, 2005 to allow for proper implementation since this accounting will result in a process change for many companies. In addition, if implemented we agree with allowing a prospective application.

McDonald's appreciates the opportunity to express our opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely,

Peter J. Bensen  
Corporate Vice President-  
Assistant Controller