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Letter of Comment No: 70  
File Reference: FSPFAS13-B  
Date Received:

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

Dear Mr. Smith:

BDO Seidman, LLP is pleased to offer comments on the Proposed FASB Staff Position (FSP) FAS 13-b.

We do not object to the staff's conclusion that in order to eliminate diversity in practice, rental costs associated with ground or building leases that are incurred during a construction period should be recognized as rental expense. However, we believe that the basis for conclusions in the proposed FSP is inappropriate and needs revision.

#### Basis for Conclusions Is Inconsistent with Other Pronouncements

The FSP supports the conclusion by stating that there 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." However, GAAP specifies different accounting for other rights during and after construction:

- There may be no distinction between the right to use borrowed funds during or after construction, but FASB Statement No. 34 requires interest to be capitalized during construction.
- There may be no distinction between compliance with legal obligations of property ownership during or after construction, but FASB Statement No. 67 requires property taxes to be capitalized during construction.
- There may be no distinction between the right to be reimbursed for damages during or after construction, but FASB Statement No. 67 requires costs of insurance to be capitalized during construction.
- There may be no distinction between the use of fixed assets during or after construction, but FASB Statement No. 19 requires depreciation of support

equipment and facilities to be capitalized during the period that they are used in exploration or development activities.

Therefore, we believe the proposed basis for conclusions is demonstrably inconsistent with existing pronouncements.

#### Basis for Conclusions Raises Questions about Practices Outside of Scope

Although not specifically addressed in the authoritative literature, we believe in practice the rental cost of leased equipment used in construction (for example, bulldozers and backhoes) generally is capitalized as part of the historical cost of the asset being constructed.

Even though the Board proposes to limit the scope of the proposed FSP to building and ground operating leases, we believe that the stated basis for conclusions calls into question existing practice relating to the rental costs of leased construction equipment.

For another example of the confusion created by the proposed basis for conclusions, consider a company that is constructing an office building on leased land. In order to store the equipment and materials used in construction, the company also leases a plot of land adjacent to the office building for the construction period. We believe that most companies would capitalize the rental costs of the adjacent plot, just as they would capitalize rental costs related to the construction equipment being stored there and used in construction. However we are unclear as to how the proposed FSP would apply to this situation.

- Would this situation fall in the scope of the FSP even though the rental costs under consideration are not the rental costs of the land actually being developed?
- If the adjacent land costs should be capitalized, what differentiates those costs from the costs of the land being developed?
- If the adjacent land costs should be expensed, what differentiates those costs from the costs of the equipment stored there?

This example illustrates the difficulty created by cloaking what is essentially an arbitrary decision with a concept invented for the occasion. We do not object to the conclusion that ground and building rental costs incurred during the construction period should be expensed, and we believe that ending the diversity in practice is sufficient justification for making an arbitrary decision among possible treatments.

#### Recommendation

Therefore, we recommend the FASB acknowledge that it is making an arbitrary decision to eliminate diversity in practice for ground and building rents, and that it decided to



require expensing rather than capitalization because ground and building lease rental costs are not closely enough related to construction-type costs to require capitalization.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP