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Letter of Comment No: 4
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Mr. Lawrence W. Smith
Director, TA&I - FSP
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Proposed FASB Staff Position No. FAS 13-b, "Accounting for Rental Costs Incurred during a Construction Period"

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. FAS 13-b, "Accounting for Rental Costs Incurred during a Construction Period" ("proposed FSP"). As discussed below, we support the issuance of the proposed FSP as a final FASB Staff Position to eliminate the current diversity in practice. However, this step does not eliminate the need for broader guidance regarding measuring the cost of an asset.

Accounting for Rental Costs Incurred During a Construction Period

In accounting for rental costs associated with both ground and building operating leases incurred during a construction period, there is diversity in current practice (i.e., capitalization or expense). The diversity stems primarily from a lack of clarity regarding asset measurement principles within the conceptual framework or a specific standard on fixed assets providing guidance as to what comprises the cost of an asset. This lack of clarity in the conceptual framework or in a standard has necessitated looking, by analogy, to various references in existing accounting literature that address measuring the cost of an asset. In that regard, some have referenced accounting literature in which certain costs incurred in readying an asset for its intended use are added to the asset's acquisition cost (i.e., FASB Statement No. 34, *Capitalization of Interest Cost*, and No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*). Others believe that rental costs incurred during construction of another asset as well as the rental costs before and after construction of the other asset pertain to the right to control the use of the leased asset. They maintain that as such, those costs do not represent probable future benefits associated with the constructed asset and therefore should not be capitalized.

Ultimately, this issue is best resolved through a broad, conceptual-based FASB response as to what comprises the cost of an asset. In the interim, we believe that the diversity associated with the specific issue regarding rental costs should be addressed. We believe that expensing rental costs associated with both ground and building operating leases incurred during a construction period as required in the proposed FSP is the better answer and support issuance of the proposed FSP as a final FASB Staff Position.

Effective Date and Transition

We agree with prospective application of the provisions of the proposed FSP, as well as the permitted use of retrospective application. We believe the proposed effective date is appropriate but urge the FASB staff to consider any concerns raised by the preparer community.

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Bob Uhl at (203) 761-3705.

Yours truly,

Deloitte & Touche LLP

cc: James A. Johnson