# WILLIAMS-SONOMA, INC.

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**Sharon L. McCollam**
Executive Vice President
Chief Financial Officer

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Mr. Lawrence W. Smith
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Dear Mr. Smith,

Williams-Sonoma, Inc. appreciates the opportunity to comment on Emerging Issues Task Force (EITF) Issue No. 05-3, *Accounting for Rental Costs Incurred During the Construction Period.* We believe that the views and current practices of corporations play an important role in the EITF's process of concluding on new issues.

***<u>Which view do we support?</u>***

Williams-Sonoma, Inc. supports View A: "An entity may capitalize rental costs associated with ground and building operating leases that are incurred during the construction period" because we believe that capitalization of such costs most appropriately reflects the total costs incurred to bring the asset to the condition and location necessary for its intended use. This capitalization treatment is also consistent with industry-wide practice and has consistently been agreed to by our independent registered public accounting firm.

For your consideration, we have referenced authoritative literature that we believe supports this position.

***<u>What is the relevant authoritative literature in support of View A?</u>***

The relevant authoritative literature in support of View A can be found in FASB Statement No. 34, *Capitalization of Interest Costs*, FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, and Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities.*

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 that 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.

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 inappropriate to capitalize "occupancy costs" such as taxes and insurance, but not the underlying rent.

Finally, Paragraph 8 of Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*, excludes "costs of acquiring or constructing long-lived assets and getting them ready for their intended uses". Therefore, proponents of expensing lease costs for both ground and building leases during the construction period should not be siting this SOP as is not relevant to their position.

Based on the above relevant authoritative literature, we believe capitalizing the lease costs described above during the construction period most properly reflects the cost of the constructed assets and would maintain consistency with current industry practice.

Williams-Sonoma, Inc. appreciates the opportunity to share our opinion on this EITF Issue No. 05-3. Should you have any further comments or questions, we would be happy to discuss in more detail.

Sincerely,

Sharon L. McCollam
Executive Vice President,
Chief Financial Officer