



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

MAY 25 2012

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft – Statement of Federal Financial Accounting Standards, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, dated February 28, 2012.

Please find enclosed answers to the questions that were asked of the respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov or Atisha Burks at (202) 482-2715 or aburks@doc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Alston", with a long horizontal flourish extending to the right.

Gordon T. Alston
Deputy Director for Financial Management

Enclosure

cc: Lisa Casias
Diane Marston
Tony Akande
Atisha Burks

**Department of Commerce Response
FASAB Exposure Draft (February 28, 2012) – Accounting for Impairment of
General Property, Plant, and Equipment Remaining in Use**

**Prepared by: Department of Commerce, Office of Financial Management
Date Completed: May 21, 2012**

Questions and Answers

1. Do you agree or disagree with the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees with the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E because it will more accurately reflect the current value of the asset. The entity must exercise judgment and consider whether material information would be changed or influenced by the omission or the misstatement, and the need for relevant, reliable, and consistent financing reporting over time.

2. Do you agree or disagree with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Any significant and permanent impairment would be identified by existing processes and internal controls already in place. We are concerned that the language in the proposal does not go far enough to protect entities from "undue administrative burden".

3. Do you agree or disagree with each of the indicators of G-PP&E impairment? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees with each of the indicators of G-PP&E impairment, because the elements within the indicators have been clearly stated in paragraph 12 of the proposed standards and Appendix A paragraphs A4 through A9 and A11 through A16. In addition, we believe that some guidance regarding maintenance that has not been done for years (maintenance deferred for excessively long periods of time) should be added so that there is clear distinction between deferred maintenance and impairment.

4. Do you agree or disagree that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E? Do you agree or disagree with the use of the measurement methods identified? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. However, we have the following real property related concerns:

- **Use of the service units method and some of these other methods described in the Statement would not be appropriate for real property valuation. A significant event that would lead to an impairment impact to real property is not appropriately reflected in the Statement. The method of assessing impairment to value of real property versus the process of reducing net book value by cost allocation through depreciation schedules are not the same. Illustrations 1a, 1b, and 2a seem prudent and appropriate for most situations. Illustrations 1c, 1d, and 2b seem inappropriate for real property.**
- **In illustrations 1c and 2b, the Statement provides that the improvement value of the existing facility assuming no damage (as fully functional) is roughly \$8.5 million in 1c and \$3.2 million (25% of 80,000 x \$160) in 2b through the cost approach. Meanwhile the net book value is \$1,515,000 and \$1,750,000, respectively. In these cases, the dilemma is not whether net book value is overstated and requires an adjustment downward, the dilemma is whether management has specific plans to replace/restore, mothball, demolish, or dispose along with the associated schedule to fund said plans. The solutions to illustrations 1a and 1b seem more appropriate in all four cases.**
- **In illustration 1d, treating floors of a building in a service units approach is not appropriate. The primary concern is the mold and its negative impact on the tenants and use of the building. If the building was a functional office building and after mold is identified, the use of the building is limited on the lower levels, no doubt the improvement is impaired. Again, rather than a mathematical formula to reduce net book value, the plans of management should determine which solution provided in 1a or 1b is appropriate. Further, when truly valuing a property, location, local economy, and the build-ability of the land along with potential alternative uses of the land/improvement have a much greater impact on the interpretation of value.**

One of the Department's bureaus, the National Oceanic and Atmospheric Administration (NOAA), has an additional measurement method to recommend – actual cost. If part of the asset is damaged and the cost of the damaged part is known, then the net book value of the damaged part should be impaired. NOAA does track costs on a lot of the components of their assets, especially their constructed assets.

5. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce did not identify any additional benefits that should be considered in determining whether benefits outweigh costs. We note that the Statement does not identify any specific costs; however, we recognize that costs may be difficult to identify since each entity's costs will differ based on the level of that entity's current review.

6. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce does not feel that there are G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.

7. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.

Department of Commerce Response:

The Department of Commerce agrees that the benefits of implementing this Statement outweigh its costs if the impairment is significant because it would more accurately reflect the value of the asset on the financial statements and not create any additional work. We believe that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives.