

Word Version of Request for Comments***Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use - Exposure Draft*****Comments Requested by May 28, 2012**

Name of Respondent: Tammy Smutny, Senior Analyst, Financial Policies and Procedures Division**Organization Represented: Department of Housing and Urban Development**

Q1. The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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.

The Department 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. Based on the Board's review, entities generally hold G-PP&E because of the services they provide; consequently, impairments affect the service utility of the G-PP&E. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. G-PP&E impairment information is relevant because it is capable of making a difference in a user's assessment of how well the entity is meeting its federal asset stewardship responsibilities. The reporting of G-PP&E impairments adds to the informational value and reliability of asset amounts presented in the entity's balance sheet and statement of net cost. The determination of whether or not an item is significant is a matter of professional judgment. If the level of services G-PP&E is capable of providing changes in circumstances that is not considered normal and ordinary, the need to recognize impairment becomes necessary in order to inform those relying on the information.

Determining if a decline in service utility is significant is separate and distinct from materiality considerations that include considering the likely influence that such disclosure could have on judgments or decisions of financial statement users.

Q2. The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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.

HUD agrees with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Events or changes in circumstances affecting G-PP&E that may indicate impairment is sometimes significant. Significant events or changes in circumstances are conspicuous or known to the entity's management or oversight entities. This Statement does not require that entities perform procedures solely to identify potential impairment of G-PP&E. Impairments can be discovered during different types of asset management reviews already in place. Events or circumstances that may indicate impairment are generally expected to have prompted consideration. Consideration might include, but is not limited to management discussions, internal managerial analyses or reviews, conferences or consultations with experts, media or public relations interviews, or external industry scrutiny.

Q3. The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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

The Department agrees with each of the indicators of G-PP&E impairment. Based on the Board's review, it was noted that reduced demand for the services of G-PP&E should not be considered as a discrete or sole indicator of potential impairment—reduced demand absent evidence of an underlying potential impairment resulting in that reduced demand is not an indicator of impairment.

Q4. The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value-in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

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.

HUD agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. Based on the Board's review, the goal of the measurement approaches reasonably estimate the portion of the net book value associated with the diminished service utility of the G-PP&E. A specific method would not be considered appropriate, if it would result in an unreasonable net book value associated with the remaining service utility of the G-PP&E. Within an entity, one method may not be appropriate for measuring all impairments. Also, a reasonable methodology may result in no impairment loss to be recognized.

In addition, the Department agrees with the use of the measurement methods identified. Based on the Board's review, given a choice among comparable methods, entities should adopt the most efficient and practical method available under the circumstances.

Q5. The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding G-PP&E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

- a. **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.**

HUD has not identified other costs or benefits in addition to those identified by the Board.

- b. **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.**

The Department has not identified any G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply.

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

HUD agrees that the benefits of implementing this Statement will likely outweigh its costs. The Statement does not require users to search out impairments or to apply the Statement to immaterial items thus eliminating additional administrative costs to implement.