



Greater Washington Society of CPAs and GWSCPA Educational Foundation

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May 28, 2012

Wendy Payne, Executive Director
Federal Accounting Standards Advisory Board
Mail Stop 6K17V
441 G Street, NW – Suite 6814
Washington, DC 20548

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft (ED) on the proposed Statement of Federal Financial Accounting Standards (SFFAS), *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 27 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

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.

A1. The FISC generally agrees with the Board's proposal to recognize impairment losses. However, we have concerns over the use of two terms in paragraph 8:

- "Significant" – As first used in the ED (paragraph 8), this term is not sufficiently defined. Footnote 7 on page 10 of the ED states that the term "significant" is a "matter of professional judgment," but then the footnote states that the term is "separate and distinct from materiality considerations . . . of financial statement users." The definition of such a key term in the ED should be defined by what the term encompasses, instead of what the term does not encompass. Should the impairment of service utility be measured in terms of quantitative decline in service utility? If so, then consistent with other Board

pronouncements, would it be proper to define significant as “more likely than not” (i.e., 50 percent), as used in SFFAS 3 and SFFAS 7, or using some other quantitative measure? Or, is the Board’s intention that one’s professional judgment would employ qualitative measures when evaluating the impairment of service utility? If so, then using what qualitative measures should one evaluate the impairment of service utility? To clarify the definition of the term “significant” in the ED, the FISC recommends that the Board explicitly include the criteria or context in which one would use their “professional judgment” when evaluating whether an impairment of service utility is significant. This could be done by using the framework for defining quantitative and qualitative measures similar to the Board’s actions in SFFAS 27, paragraph 24, in SFFAS 31, paragraph 21, or in SFFAS 33, paragraph 20.

- “Gradual” – As first used in the ED (paragraph 8), there is not sufficient explanation of how a gradual decline in service utility differs from depreciation (i.e., normal and ordinary loss of service utility). The ED does not include any examples or illustrations of instances in which a gradual and unpredictable decline in service utility would be considered an impairment. The only illustration in the ED that refers to a gradual decline (illustration 2a) concludes that the gradual decline is normal and ordinary, and would not be considered an impairment. The FISC recommends that examples or illustrations of impairments resulting from a gradual decline in service utility be included in the Standard, or that the term “gradual” be removed from the Standard if it cannot be supported with examples or illustrations.

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.

A2. The FISC generally agrees with the Board’s proposal that entities should not be required to review their portfolios solely for potential impairments. However, the FISC suggests that the Board reconsider its position in paragraphs 13 and A4, which contain ambiguous language or are contradictory with paragraphs 7 and A21. Specifically:

- Paragraph 7 states that “the entity is not required to conduct an annual or other periodic survey solely for the purposes of applying these standards. Existing processes may . . . serve as the basis for applying these procedures.” (emphasis added)
- Paragraph 13 states that the Statement “does not require that entities perform procedures solely to identify potential impairment of G-PP&E.” (emphasis added)
- Paragraph A4 states the standard “does not require entities to alter existing assessment methods solely for the purpose of applying these standards.” (emphasis added)

- Paragraph A21 states that “entities should consider G-PP&E impairments in the context of their existing practices and apply this Statement only when there is an indicator of significant impairment present.” (emphasis added)

Given the language included in the ED, the FISC recommends that:

- the use of the term “procedures” in paragraph 13 should be replaced with “an annual or other periodic survey” to be consistent with paragraph 7. As currently written, paragraph 13 may be interpreted by some that agencies are not required to perform any procedures to identify impairments, and that the identification of impairments is a reaction based upon external sources of consideration, such as “oversight entities . . . or others (e.g., the media).”
- the phrase in paragraph A4 that states, “does not require entities to alter existing assessment methods solely for the purpose of applying these standards” should be replaced with a phrase that directs agencies not to conduct an annual or periodic survey solely for the purpose of applying these procedures, but that existing routine assessments employed by management should include steps to identify indicators of impairment. Such a statement would then be consistent with paragraphs 7 and A21 of the ED.

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.

A3. The FISC generally agrees with the indicators of G-PP&E impairment found in paragraph 12 of the ED. However, the FISC offers the following clarifications to the language included in the ED:

- In paragraph 12(b), footnote 9, and paragraph 12(e), the terms “usage” (found in paragraph 12(b)), “usable capacity” (found in footnote 9), and “use” (found in paragraph 12(e)) are unclear. The FISC recommends that the terms cited in the previous sentence be replaced with “service utility” or “level of utilization” since those terms are key elements of the definition of impairments in the ED, and are defined in paragraphs 8 and 9, respectively. Use of similar terms found in the ED would eliminate reader confusion.
- In paragraph 12(d), the current narrative does not explicitly indicate the Board’s intentions that “major” technology changes should be the indicator for impairment. The addition of the word “major” at the beginning of paragraph 12(d) would satisfy this request.
- In paragraph 12(e), it is unclear how the Board expects when “a change in the manner or duration of use of an asset” would be considered an impairment versus normal and

ordinary use (i.e., depreciation). Similar to our response in A1, the FISC recommends that the ED be revised to provide additional information to the reader how the Board distinguishes between depreciation and an impairment.

- In paragraph 12(g), it is unclear how “G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods” would constitute an impairment since, as noted in paragraph 21 of the ED, the Board expects agencies to account for these conditions in accordance with SFFAS 6 paragraphs 38 and 39, which do not provide for impairment as an accounting treatment.\

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.

A4. The FISC generally agrees with the measurement methods described in paragraph 17.

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

- A5. (a) The FISC did not identify other costs for benefits not already identified by the Board.
- (b) The FISC did not identify any G-PP&E categories, classes or base units to which these provisions should not apply.
- (c) The FISC agrees that the benefits of implementing these provisions outweigh the costs.

Other Comments

We recommend that the Board consider the following additional matters:

- In paragraphs 1 and 21, the Board should include a reference to FASAB Technical Release No. 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment*, for additional clarity.
- In paragraph 19, the Board should indicate for how long this disclosure should be maintained. Should the disclosure be made in the year of impairment, only for the years presented in the comparative financial statements, or for as long as the asset remains on the books of the entity?
- Paragraph 19 does not explicitly require disclosure of the method of calculating the impairment, but paragraph 24 implies that there is a requirement to do that at the agency level, as evidenced through the phrase, “The U.S. government-wide financial statements need not disclose the measurement methods used in recognizing impairment losses.”
- In paragraph 12, the word “Some” appears to be indented further than other paragraphs.
- The FISC agrees with the Board’s position that the decline in service utility be permanent (paragraph 16B), but the ED does not provide consideration of instances in which significant time delays may inhibit the entity’s ability to satisfy one of the three elements of reasonable expectation outlined in paragraph 16B. For example, if the budget cycle would require that an impaired asset remain idle for three to five years (which may not be unreasonable given the Federal budget process), what actions should an agency take, especially when it has specific plans to remediate (condition 1 in paragraph 16b) but does not yet have Congressionally-approved funding to commit or obligate (condition 2 of paragraph 16b)? Does the Board envision separate treatment if some excessive length of time exists or is expected between the identification of the impairment and the remediation of the asset? Such a scenario may require the Board to include guidance in the Standard for instances in which the decline in service utility is other than temporary, but not permanent.
- On page 31 of the ED, the table for “Selecting a Measurement Method” should include physical damage (example 1.D) in the “Potential Indicators” column for the “Service Units Approach” row since example 1.D discusses physical damage to an asset.
- On page 31 of the ED, the table for “Selecting a Measurement Method” should include “7b” in the column “Illustrations that may be appropriate” for the “Lower of (1) Net Book value or (2) Higher of Net Realizable Value or Value-in-Use Approach” row since example 7b provides such an illustration.

- On page 35 of the ED, there appears to be an unnecessary horizontal line in the “Historical Cost” column below the \$100,000 amount.
- On page 35 of the ED, the dollar sign appears to be missing next to “8,500,000.”
- On page 39, the word “of” appears to be missing in the phrase “by administrative and visitor use of one [of] the more prominent multi-use . . .”
- Illustration 2b (page 40) includes a proposal the “Board of Regents”, and illustrations 3a and 7b include discussions of a hospital. These are not common occurrences among entities subject to FASAB standards. Could more common scenarios for Federal agencies be included in the Standard?
- On pages 41 and 43, to avoid reader confusion, dollar signs would be beneficial next to all dollar amounts in the tables.
- Illustration 5 (page 50) uses the term “period of disposal.” This term is unclear and not previously defined. The FISC recommends that the phrase “in the period of disposal” be removed.
- Illustration 7a (page 53) uses the term “post-wide basis.” This term is unclear and not previously defined.
- Illustration 7b (page 57) uses the phrase “non-service connected procedures.” This phrase is unclear.
- In footnotes 27 and 28 (pages 60 and 63, respectively), the word “law” in “Military law Review” should be capitalized.
- In illustration 7d (page 63), the phrases “Calculate cash flows:” and “Calculate undiscounted cash flows:” are repetitive.
- In Illustration 7d (page 63), present value (PV) factors are used, but have not been previously introduced. The FISC recommends that guidance or reference to the source of the “PV Factor” column be provided in the Standard.
- On page 65, the definition of CFR should include the letter “d” after the word “consolidate.”
- On the last page of the ED, under the heading of “FASAB Board Members”, the name of the representative from the Office of Management and Budget is not identified.

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink that reads "Andrew Lewis". The signature is written in a cursive, flowing style with a long horizontal flourish at the end.

Andrew C. Lewis
FISC Chair