



OFFICE OF THE UNDER SECRETARY OF DEFENSE
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COMPTROLLER

MAY 25 2012

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

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use Exposure Draft. The current DoD policy for General Property, Plant, and Equipment permanently damaged is to dispose of the asset or repair it. There is no need to revalue DoD General Property, Plant, and Equipment assets.

Responses to specific questions are enclosed. My contact is Ms. Maryla E. Engelking. She can be reached at maryla.engelking@osd.mil or 703-602-0155.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton", written over a horizontal line.

Mark E. Easton
Deputy Chief Financial Officer

Enclosure:
As stated

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: Mark. E. Easton**Organization Represented: Department of Defense (DoD)**

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 of Defense agrees with the theory that recognizing impairment losses is consistent with industry standards and that a standardized method of recognizing significant impairment losses would improve reliability and consistency within and across federal entity financial statements. However, the benefit of recognizing impairment losses is minimal at best for the Department of Defense, and would probably be cost prohibitive. The Department's myriad of accounting and logistics systems are not programmed to implement and comply with this standard, resulting in additional manual work-around procedures to ascertain loss estimates. Additionally, the Department does not manage G-PP&E by acquisition cost. Therefore, recognizing impairment losses adds no value. Finally, the Department will never have a scenario in which G-PP&E is written down, since it is the Department's policy to either dispose of the asset or repair it. The asset would not be used in an impaired state.

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.

DoD agrees. To require entities to review G-PP&E portfolios solely for potential impairments is a costly exercise, with little or no benefit. Significant changes to

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G-PP&E should be the indication that additional work is necessary to determine if the G-PP&E is impaired. Also, conditional reporting for deferred maintenance and repairs could also lead to an asset being deemed as impaired.

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.

DoD partially agrees. Recognizing impairment losses does not seem appropriate for “changes in the manner or duration of use of G-PP&E or retirement.” It would seem more appropriate to accelerate the depreciation expenses of items falling under these indicators rather than categorize them as impairment losses.

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.

Agree that measurement methods selected should reasonably reflect the diminished service utility of G-PP&E. To attain a reasonable estimate of the impairment, the proper measurement method is essential. Otherwise, an unreasonable net book value could be estimated and recorded.

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.**

Yes. Additional controls, with their added costs, will be needed to assure that risks are monitored. Professional judgment is subjective and will require monitoring. The impression that agencies making this type of adjustment have made their balance sheet disclosure more reliable (if the underlying number is not auditable, the reliability will not be changed by this type of adjustment) is a risk. All risks are costs, in that controls must be implemented to manage risk and inefficiency results if risk is not managed effectively. There are benefits to be realized, but only when all agencies implement consistently.

- 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.**

Yes. Consideration should be given to military equipment impaired during combat operations. These types of impairment should be expensed since they would normally be considered a cost of doing business.

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

Disagree. The additional costs to implement the policy have not yet been fully investigated. Second, certain agencies, such as the Department of Defense, do not manage G-PP&E by values placed on the balance sheet and, therefore, would not benefit from the standard. Finally, this guidance should not apply to unaudited agencies. Implementation without audit scrutiny and confidence imposes cost with no value added.