

From: Fleming, William
Sent: Tuesday, May 29, 2012 7:22 PM
To: FASAB
Subject: Asset Impairment ED - SEC comments

Attached are SEC comments on the Asset Impairment Issue.

Thanks,
Bill Fleming

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: William Fleming**Organization Represented: U.S. Securities and Exchange Commission**

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.

We agree with the proposal in the Exposure Draft. However we suggest an edit to make it clear up front that this definition applies to assets that will remain in use. Specifically,

Impairment is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E **that will remain in service.**

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.

We strongly agree with the proposal. We believe this statement is critically important to prevent wasteful and unnecessary reviews of property, plant and equipment for impairments. This concept should be emphasized.

We suggest expanding on this concept either in the standard to relate property reviews to the importance of the property and the risks of failure. Specifically, where the risk of failure of equipment is important to agency operations, managers will normally have existing procedures in place to identify and monitor impairment. If management does not have such procedures in place, this is indicative of low risk and minimal operating need for this information. For example, the SEC's PP&E largely consists of office equipment

and leasehold improvements. The SEC does not monitor assets for impairment because the failure rate is extremely low, failure would have minimal impact on agency mission, and the assets are easily replaced. On the other hand, agencies with mission critical assets that are difficult to replace will monitor that equipment to meet operational needs. The Standard should state the absence of monitoring is likely a reflection of management's proper prioritization of resources and is not a deficiency in asset management.

In addition, paragraph 7 contains three discrete and unrelated concepts, including the application of the standard to software and discussion of annual reviews. We suggest that for clarity, these three concepts be separated into different paragraphs.

Although this should be obvious, we also suggest a clear statement that this standard does not apply to impairments of assets with \$0 net book value. Specifically, no financial impairment needs to be calculated for fully-depreciated assets and for non-capitalized stewardship assets. Without this caveat, some readers might argue that a portion of the gross cost and accumulated depreciation of fully depreciated impaired assets should be adjusted.

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.

Yes, we agree with these indicators.

However, clarification of some of the indicators may be helpful. Specifically, in item g, paragraph 12, we suggest that the difference between impairment of assets expected to remain in use and assets identified for disposal be clarified. This sentence implies that G-PP&E scheduled for disposal might be recognized as impaired, while other standards indicate that these assets should be written down to net realizable value.

Specifically, in paragraph 12, "idled and unserviceable" assets awaiting disposal are recognized as impaired, while "G-PP&E that is no longer being used by the entity" (paragraph 21) are removed from asset accounts.

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.

We agree that the reporting entity should select a measurement method that reasonably reflects the diminished service utility of the G-PP&E. We also agree that the Standard should identify common measurement methods. We have two comments on the measurement methods.

1. Relationship between type of impairment and measurement method

We suggest that the Standard be revised to clarify that the selection of a methodology is a matter for agency judgment, and to make it clear that there is not a one-to-one relationship between types of impairments and specific measurement methods.

Specifically, we suggest a revision of the discussion of each of the various approaches. In each case, the discussion of the approach begins by identifying a common situation when that approach might be used. This strongly implies that the identified approach must be used for the illustrated type of impairment, and only that type of impairment. This implication is very likely to limit a reporting entity's flexibility to choose among the various approaches. We suggest that each approach be defined first, and then the common use be identified as an illustration. This will remove the implication that there is a one-to-one relationship between type of impairment and estimation methodology. For example, as written, the Restoration Approach paragraph strongly implies that this methodology is only appropriate for stewardship assets and also that it must be used for stewardship assets.

We do not believe this interpretation was intended. If this interpretation was intended, we do not concur. We believe the reporting entity must be able to select among the various approaches considering availability of data, the costs and benefits of the methodology, and the reasonableness of the result.

2. Net remaining value

All of the measurement methods proposed focus on valuing the impairment. By definition, the other half of the equation is the remaining value of the asset. In some cases, it may be more cost effective to determine how much value remains rather than how much value has been lost. This additional valuation method should be included.

Also, if the remaining net book value of an asset is low, it may be reasonable to write off the asset rather than attempt to finely determine the amount of impairment. A valuation alternative should be included to write down the value of an asset to \$0 without extensive analysis when a reasonable person would conclude that the impairment exceeds the net remaining book value of an asset.

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.

This standard is beneficial only in relationship to assets that are critical to an agency's mission and that are difficult and costly to replace, and only to the extent that the standard provides additional information to agency management. If this standard were to be applied more broadly, or result in the expectation that agencies hunt for all asset impairments, costs of gathering and maintaining information would quickly dwarf the benefits.

As discussed in response to Question 4, even when an asset is clearly impaired, the expense of calculating the impairment should be considered, and cost effective estimation methodologies should be applied.

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.

We suggest that reporting entities should be permitted, or even better, expected to identify categories for assets that will not be subject to impairment reporting. This should include categories of assets that are immaterial to agency operations, that are commercially available and/or that are easily and commonly replaced in the normal course of business.

Specific categories that might be excluded include office furniture, office equipment and leasehold improvements.

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

Any costs incurred by the SEC to identify impairments would exceed benefits. Due to the nature of SEC assets, and the relationship between agency assets and the accomplishment of agency mission, there is no benefit whatsoever to the identification, valuation, tracking or reporting of any impairments of SEC assets. Existing standards adequately cover any situation that the SEC may encounter.

Provided that the standard is strongly and clearly limited to agencies with material mission-critical assets not easily replaced in the normal course of business, this standard will have no impact on the SEC.