

From: Simpson, Cynthia - OCFO
Sent: Tuesday, May 29, 2012 5:21 PM
To: FASAB
Cc: Karczewski, Stanley - OCFO; Brown, Kevin L - OCFO; Gabel, David - OCFO; Albayrak, Yoko - OCFO
Subject: Comments on Proposed Statement of Federal Financial Accounting Standards (SFFAS), "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use"

Below please find comments from the U.S. Department of Labor, Office of the Chief Financial Officer, on the subject exposure draft. Thank you for the opportunity to provide comments. If there are any questions, please contact me at simpson.cynthia@dol.gov or 202-693-6807.

Regards,

Cynthia D. Simpson
U.S. Department of Labor
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Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use - Exposure Draft**Comments Requested by May 28, 2012**

Name of Respondent: [Cynthia D. Simpson](#)**Organization Represented:** [U.S. Department of Labor, Office of the Chief Financial Officer](#)

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 believe that an impairment loss may occur when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. However, we believe that Agencies should consider alternatives before recognizing an impairment loss. These alternatives could be a prospectively applied change in \(1\) depreciation method to an accelerated method, \(2\) salvage value to a lower value, and/or \(3\) useful life to a shorter life. The Board describes these alternatives in paragraph A.5 on page 21 of the Basis for Conclusions and we believe that these alternatives should appear in the accounting standard as well as the Basis for Conclusions. If these alternatives are considered, then we believe that the recognition of an impairment loss would tend to be infrequent, significant, and occur as a result of sudden changes in circumstances.](#)

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 agree with the Board's proposal that the Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. We agree that the implementation of the standard should not cause undue administrative burden and should allow the Agency to effectively use its resources.

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.**

We agree with each of the indicators of G-PP&E impairment listed in paragraph 12. However, if G-PP&E scheduled or awaiting disposal, retirement, or removal for excessively long periods is included in the list of indicators in paragraph 12, then the standard should be "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use or Other than Permanently Removed from Service" instead of "Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use." The addition of "Other than Permanently Removed from Service" would render the standard consistent with footnote 10 on page 12.

Also, we suggest that the following indicator be added to the list:

-- In the current accounting period, changing the depreciation method, salvage value, and/or useful life to increase the depreciation expense will not reasonably reflect the change in circumstances.

In this way, Agencies may consider changes to the depreciation method, salvage value, and/or useful life to increase depreciation expense as an alternative to recognizing an impairment loss on a depreciable asset.

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 measurement method selected should reasonably reflect the diminished service utility of the G-PP&E.

We agree that each of the methods may be used with the circumstances described as examples in paragraphs 17.a. through 17.f. The wording in paragraph 17 allows for Agencies to use other methods; for example, "A specific method, including one of the methods listed below, 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." However, we believe that the standard should include clearer wording that would allow an Agency to use a method that is not listed in paragraphs 17.a through 17.f on pages 14—16 as long as the method reasonably estimates the portion of the net book value associated with the diminished service utility and that the methods described in paragraphs 17.a through 17.f on pages 14—16 are not all-inclusive.

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.

At this time, we have 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.

At this time, we have not identified 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.

We believe that the benefits of implementing this Statement would outweigh its costs, provided that the Statement (1) permits an Agency to select a method that is not listed in paragraphs 17.a through 17.f on pages 14—16 as long as the method selected reasonably estimates the portion of the net book value associated with the diminished service utility and (2) describes that the methods in paragraphs 17.a through 17.f on pages 14—16 are not all-inclusive.

Comments on Other Aspects of the Exposure Draft

Below please find items A. through C. as comments on other aspects of the exposure draft.

A. Page 11, Paragraph 9. The first and second sentences of paragraph 9 make reference to usable capacity “at acquisition” and “original usable capacity.” SFFAS 6, paragraph 37, states, “Costs which either extend the useful life of existing general PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated general PP&E.”

Please ensure that the costs and capacity referenced in SFFAS 6, paragraph 37, which may occur subsequent to the date of original acquisition, are also considered as part of (1) usable capacity “at acquisition” and (2) “original usable capacity.” This is particularly important because paragraph 9 is referenced in paragraph 16.a as part of step 2 on page 13.

B. Page 13, Paragraph 16.a. Please improve the wording of the following sentence: “The costs associated with previous service utility are significantly greater than the costs that would otherwise be associated with the new expected service utility.”

Instead of “costs,” perhaps “value” or “net book value” (used in paragraph 17.f on page 16) would better reflect wording for the amount to be treated as depreciation expense and allocated in a rational and systematic manner over the asset’s remaining useful life. Furthermore, the word “costs” may not apply to non-depreciable assets.

C. Consistency of terminology with regard to “diminished service utility.” In the Glossary on page 66, “Service utility” is defined as “the usable capacity that at acquisition was expected to be used to provide service.” According to this definition, “diminished service utility” corresponds to “diminished usable capacity.” However, we found four instances where the term “diminished service capacity” was used instead of “diminished service utility” and one instance where “service capacity” was used instead of “usable capacity” in the document. Please use consistent terminology throughout the document.

Comments of an Editorial Nature

Below please find comments of an editorial nature for your consideration.

- a. Page 9, Titles for Materiality and Effective Date. These two titles appear to decrease in font size when compared to the title for Purpose.
- b. Page 11, Title for Step 1. The last word in the title appears to decrease in font size.
- c. Page 16, Paragraph 17.f. Please correct punctuation in the first sentence as follows: "G-PPE impaired from either construction stoppages or contract terminations, which are expected to provide service, should be reported at their recoverable amount; the lower of (1) G-PP&E's net book value or (2) the higher of its net realizable value or value-in-use estimate."
- d. Page 22, Paragraph A5.b. The sentence appears to have a typographical error; ". . . change in the manner or expected use, . . ." perhaps should instead read ". . . change in the manner of expected use, . . .".
- e. Page 22, Paragraph A6, third sentence. Correct typographical error from "indictors" to "indicators."