

**United States Department of State***Deputy Chief Financial Officer**Washington, D.C. 20520*

May 28, 2012

Dear Ms. Payne:

The Department of State (Department) appreciates this opportunity to review and comment on the Federal Accounting Standards Advisory Board (FASAB) exposure draft (ED), Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use: Statement of Federal Financial Accounting Standards. We appreciate the FASAB stated objective to improve consistency in regard to asset reporting, but are skeptical that this will result at a reasonable cost to our agency and will, in fact, result in substantially greater audit compliance cost. While, the proposed standard will clarify the distinction between impaired assets and assets pending disposal, we note in our responses to the FASAB questions that consistency will depend on portfolio analysis and that we anticipate independent auditors will require annual assessments based on this premise even if the portfolio review is not mandated by the standard.

In addition to the above, we want to note that actual impairment losses are not always fully recognized in the appropriate fiscal year and may be subject to interpretation when PP&E is "idled" or indefinitely sidelined in a property portfolio. In this regard, the language in the standard should be strengthened to make it clear when "impairment losses" are actually realized particularly in light of the language in paragraph 12g which allows for unserviceable assets "awaiting disposal" to remain in the portfolio. Addressing this point would make the proposed standard more consistent with Accounting and Auditing Policy Committee (AAPC) Technical Release 14 Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment.

Ms. Wendy M. Payne

Executive Director

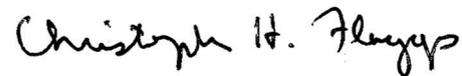
Federal Accounting Standard Advisory Board,

441 G Street, N.W., Suite 6814

Washington, D.C. 20548

The Department respectfully disagrees with the position that the benefits of the standard outweigh the administrative costs of implementation. To achieve the consistency the Standard expects, agencies will have to perform portfolio reviews during a time of ever decreasing resources. We also believe the information will have limited value to either internal management or external oversight decision makers. Our specific comments and responses to the FASAB questions are identified in the enclosure. Should you have any questions, please contact me on (202) 261-8620.

Sincerely,



Christopher H. Flaggs

Enclosure: As stated.

CC: Mr. James Millette  
Mr. Jurg Hochuli  
Ms. Cecilia Coates

**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 GPP&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 Department of State concurs that it is important to distinguish capitalized PP&E assets that are pending disposal and PP&E assets that are operating at a reduced level of full performance. We concur that this standard will associate the loss at or near the point of impairment. Unfortunately, there could be a delayed decision regarding disposals and agencies may have recognized an initial impairment if an asset is sidelined due to damage/change in environment and subsequently a follow-on loss if disposed of due to actual (complete) obsolescence or unavailability of funds to put the asset into operating condition. Management should have sole discretion in the identification of an impaired asset and there should be no prior period losses for impairments that were not fully or properly recognized in the year of occurrence. Decisions to subsequently dispose of an impaired asset that is never placed back in service should not be considered an error and should be solely subject to the accounting requirements in the Statement of Federal Financial Accounting Standard No. 6. The Department of State recommends that this situation be more explicitly stated in the standard to ensure consistency by all agencies.

**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.** Disagree in light of the response to question number one above and how auditors will interpret the need for consistency. The Department of State agrees that the effort to comb through an inventory of G-PP&E assets is time consuming and a drain on available resources needed for other priorities so, in this regard, we concur with the Board's desire to limit the burden on agency reviews of their portfolios since we prefer not to review G-PP&E portfolios solely for potential impairments. Nonetheless, the need for consistency in reporting on government operations will not occur without the portfolio reviews and we anticipate our auditors will insist on the reviews as part of an audit compliance requirement. Essentially, we anticipate that our auditors will require any capitalized out of service or under-performing PP&E to be designated as either impaired or pending disposal.

**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, 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 (i.e., idled or unserviceable) disposal, 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.** With the exception of item “g” in paragraph 12, the Department of State concurs that the cited indicators could impair capitalized property, plant, and equipment (PP&E) and that these indicators have the potential to provide an appropriate approach for reducing the intended life span or purpose of the PP&E. However, item “g” which references “idled or unserviceable” is confusing and inconsistent with the purpose of the standard. Idle PP&E that has operating capability or will be repaired at some point may be considered an impaired piece of PP&E. Property that is “unserviceable” and awaiting removal from the accounting records should not fall under the impairment definition and should be handled in accordance with SFFAS 6, Accounting for Property, Plant, and Equipment. Such treatment would also be consistent with the AAPC guidance in Technical Release 14.

**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 Department of State recognizes that there may be many different types of U.S. government PP&E procured and justified with different methodologies and purposes in mind. We also recognize that the measurement methodology selected should reasonably reflect the diminished service utility of the PP&E. While most of the measurement methods in the standard would not be used by the Department and their presence in the standard makes the standard relatively complex, the Department recognizes that each measurement method could have an appropriate application to an individual agency given the wide variation of PP&E within the U.S. Federal Government.

**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<sup>2</sup> to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding GPP& 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.**

**A5a.** The Department of State respectfully disagrees with the Board's position on this question. While there may be an assumed cost/benefit for the standard, it will not achieve its intended objective without examining the existing portfolio of property. For State, this examination and review cost appears to be unreasonable relative to the value it would return to the Department. If the Board sincerely believes this standard must go forward, the Department of State proposes that the Board allow a 5-year window from the date of adoption of the standard that requires agencies to review their portfolio (20% per year) for purposes of classifying impaired assets and recognizing the losses in the year of identification. Progress would be reported as an item in Required Supplementary Information. Obsolete G-PP&E or assets that have subsequently deteriorated beyond management's criteria for rehabilitation would be designated as assets pending disposal and handled in accordance with SFFAS No. 6. This action would be consistent with the guidance in Accounting and Auditing Policy Committee (AAPC) Technical Release 14 Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment and would be especially important for high-value industrial G-PP&E as well as real property that may be sidelined or underperforming due to declining demand or location. Without a portfolio review as resources are available, the impairment standard may be inconsistently applied for many years, especially if sufficient resources never materialize to rehabilitate the property

**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.**

**A5b.** The Department of State has no position on this question.

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

**A5c.** See the response to question 5a.