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Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
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Exposure Draft of Proposed FASAB Statement, *Estimating the Historical Cost of General Property, Plant, and Equipment - Amending Statements of Federal Financial Accounting Standards 6 and 23*

Dear Ms. Payne:

Deloitte & Touche LLP is pleased to comment on the Federal Accounting Standards Advisory Board (FASAB or "Board") Exposure Draft (ED), *Estimating the Historical Cost of General Property, Plant, and Equipment - Amending Statements of Federal Financial Accounting Standards 6 and 23*.

Questions for Respondents

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing G-PP&E accounting for the first time. See paragraphs 7 and A9.

Do you agree or disagree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate for entities and for those who have not previously prepared financial reports, but who may be required or elect to do so in the future? Please provide the rationale for your answer.

We agree that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E upon initial capitalization is appropriate.

However, we believe that a deployed asset (i.e., deployed in War, Space, etc.) in which there is a strong likelihood that the asset will not return to the entity, may need a different accounting treatment other than estimating the historical cost and accumulated depreciation. We feel that the Accounting and Auditing Policy Committee would be an ideal vehicle for addressing the accounting treatment of these assets.

In addition, we recommend that the FASAB clarify, "previously prepared financial reports" as to whether this applies to both audited and unaudited financial reports that an entity prepares. Entities report assets on their audited and unaudited financial statements using estimating techniques that may not be considered appropriate or reasonable under SFFAS 6 and 23. We believe that this situation would not be included under "initial capitalization", but under the "initial **application**" of the standards. Therefore, FASAB should also include "initial application" since it is addressed in Paragraph 16 of the ED (under SFFAS 23), *Adjustment to Cumulative Results of Operations*. Under "initial capitalization," the FASAB includes agencies which have not been audited. We recommend that the FASAB clarify whether this also includes agencies that have failed audit due to their inability to establish a PP&E baseline.

Q2. The Board proposes that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, be considered acceptable on a continuing basis. See SFFAS 23 amended paragraphs [10.] – [13A.].

Do you agree or disagree that initial capitalization of G-PP&E based on reasonable estimation methods as provided in the SFFAS 23, as amended, is acceptable on a continuing basis? Please provide the rationale for your answer.

Deloitte recommends that the reasonable estimation method be permitted for a limited period of time until a specified date established by an agency's independent action plan or, at the latest, an effective date stipulated by FASAB. We believe that the entity should have a commitment to a final transition date and provide regular status updates to their Inspector General, and possibly OMB.

We believe it is acceptable to allow the use of the reasonable estimation method to determine historical valuation of assets until an agency can put in place the appropriate policies, processes and systems to enable an agency to capture actual cost. A date certain, established by FASAB or the agency itself, provides a sense of urgency and minimizes indefinite deferral of the required investment. See response to Q4.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E. See paragraphs 7 and A10 – A13A.

Do you agree with the proposed amendment to SFFAS 6 that allows the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for G-PP&E? Please provide the rationale for your answer.

We agree with the proposed amendment to SFFAS 6. We believe that it is important to note that whether the valuation assertion is satisfied by historical cost or reasonable estimation methods, financial statement assertions relating to existence of the underlying asset must be verifiable. Also, the FASAB should specify whether there is a hierarchy to the ordering of the new bulleted items specified in SFFAS 6, paragraph 40.

Q4. The Board proposes that reasonable estimates be permitted at any time. One member has expressed concern regarding the open-ended time period for the use of estimates. See paragraphs 7 [SFFAS 6 amended paragraph 40], A5., A14., A15., A19. and A20

Do you believe that the use of reasonable estimates to value G-PP&E should be permitted at any time (i.e., an open-ended option) or only permitted through a definitive end date (i.e., a date-certain option)? Please explain your preference.

We recommend a date certain should be stipulated by the FASAB so that federal entities have a commitment to a final transition date. Otherwise, we believe that entities may not have a sense of urgency to implement processes and systems for timely capturing of historical cost. In establishing a date-certain, we also believe that FASAB should consider the burden placed on some entities to develop an approach and/or systems that captures historical costs.

Q5. As noted above, one member, Mr. James Patton, has expressed views different from the majority view regarding this proposal. See paragraphs A18. through A20.

Do you agree with the views expressed in the Alternate View in the Basis for Conclusions? Please provide the rationale for your answer.

We disagree with the Alternative View in the Basis of Conclusions of the ED. We believe that reasonably estimating the original transaction data historical cost and accumulated depreciation of G-PP&E can be accomplished and audited. Also, we believe that if there is a date-certain established it is likely that agencies will be deterred from delaying, for a considerable period of time, the creation of systems that are designed to capture historical costs based on transaction data. We believe that a date-certain approach will address some of the primary concerns raised in the Alternative View.

Q6. The Board has proposed clarifications regarding when reasonable estimates are permitted.

Do you believe additional clarification is needed on the use of reasonable estimates when valuing the historical cost of G-PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

We recommend that the FASAB discuss how an entity would support and document reasonableness through the use of examples of reasonable documentation that is adequate to support financial statement assertions.

If you have any questions concerning our comments, please contact Mr. Larry Ishol at (202) 378-5100.

Yours truly,

Deloitte & Touche LLP

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cc: Mark Crowley