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

Dear Ms. Payne:

Subject: FASAB Exposure Draft, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23,* dated November 14, 2008

The Chief Financial Officers Council, Standardization Committee, FASAB Response Group appreciates this opportunity to offer comments to the exposure draft proposing amendment to SFFAS 6 & 23, Estimating the Historical Cost of General Property, Plant, and Equipment, and to clarify that reasonable estimates of original transaction data historical cost may be used to value general property, plant, and equipment.

We express our support for the Board's guidance in considering how information should be categorized and believe this statement will facilitate the understandability, consistency, and comparability of federal financial reporting. It will also provide the conceptual framework needed to determine the display of emerging complex financial reporting issues.

Attached are the responses to questions Q1 through Q6 and comments on other aspects of the proposed Statement. We hope our comments will assist the Board in clarifying intent and enhancing readability of the statement.

Again, thank you for the opportunity to provide responses to the exposure draft. If you need any additional information, please contact me at (202) 208-4701.

Sincerely,

Daniel L. Fletcher
CFOC Standardization Committee
FASAB Response Group Representative

Attachment

Q1. The Board proposes that reasonable estimates may be used upon initial capitalization by entities implementing General Property, Plant, and Equipment (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 General PP&E upon initial capitalization is appropriate for entities that have not previously reported General PP&E on their entity financial reports 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.

i. We agree that it is appropriate that reasonable estimating techniques could be used in place of historical cost records if such historical records are unavailable or development of such records would be cost prohibitive upon initial capitalization by entities that have not previously reported General PP&E on their entity financial reports and for those who have not previously prepared financial reports. First time implementers may need such approaches to prevent excessive cost being incurred that would have minimal financial reporting impact.

ii. For example, Department of Transportation (DOT) Maritime Administration's (MARAD) vessels under the national defense reserve force (NDRF) program were treated as national defense PP&E according to the FASAB SFFAS No. 11, issued in December 1988. This PP&E was reported as expenses in the DOT's financial statement prior to FY 2003. However, SFFAS No. 23 issued by FASAB in May 2003, eliminated the national defense PP&E. MARAD started to report these NDRF vessels as General PP&E depreciable assets on the DOT's financial statement in FY 2003.

In order to track and report the General PP&E, agencies must determine whether the acquisitions are meeting General PP&E criteria and must establish General PP&E costs, life and depreciation methods, etc. As a result of the change of the standards from No. 11 to No. 23, MARAD had to retroactively reconstruct the historical cost information for these vessels as General PP&E. MARAD had a difficult time substantiating the historical book values based on the original documents due to the following reasons: multiple transactions supporting single assets occurred years before the standard (SFFAS No. 23 of May 2003) was issued; the documentation (e.g., purchase orders, invoices, book values) may no longer exist; or, the records have been archived or disposed (as the retention period for documents has expired). The costs of reconstructing historical financial information for General PP&E would be enormous for General PP&E acquired prior to SFFAS No. 23 and there is little benefit to construct perfect historical financial information for this type of General PP&E because the book values of many of these properties are $0 or almost depreciated. Therefore, estimating the original transaction data historical cost and accumulated depreciation of General PP&E upon initial capitalization is appropriate.

iii. Another example involved the National Science Foundation (NSF) which manages the U.S. Antarctica Program and many of the General PP&E from the program were transferred to NSF by Department of Defense (DoD) and some of these General PP&E were acquired or built long before they were transferred to NSF and some records were not available at the time of transfer. Additionally, NSF also gained General PP&E by inventory through the inventory process undertaken annually that is usually a result of these General PP&E 're-appearing' from being buried under snow and ice. Some of these posed problems to NSF in terms of being able to provide the historical financial information for capitalization purposes, especially if no other like asset is found on the books.

Q2. The Board proposes that initial capitalization of General 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 General 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.

i. The response from this committee has two schools of thought. There is the one that understands the need to have estimating techniques available but is concerned that an open-ended approach may lead to delays in entities developing better systems and mechanisms to identify actual historical costs at the transaction level. It is believed that estimating techniques should remain an available option as long as estimated results are determined to be accurate enough to not cause material errors in General PP&E balances and overall financial statement presentation. Entities using estimating techniques need to address the lack of appropriate systems or data capturing methods for determining historical cost transactions as the basis for General PP&E and evaluate any associated control risks. Even though using alternative techniques may result in materially accurate financial statements, it also may increase the risk of potential errors, especially when dealing with significant dollar estimates. Therefore, the committee recommends that FASAB addresses this issue in this Exposure Draft. There is also the concern on the long-term continued usage of estimating techniques by any entity as a potential management issue that should be addressed from perspectives such as OMB scorecards, OMB Circular A-123 and A-127 requirements, as well as FFMIA implementation guidance or other areas as noted in Exposure Draft paragraph A13.

ii. On the other hand, there are agencies that support the estimation methods on a continuing basis where there are instances when the General PP&E were transferred from other agencies, abandonment, etc., and the original documentation (e.g., purchase orders, invoices, book value) may no longer

or does not exist, and it is not cost effective to determine the historical cost values.

Example: If an agency was to transfer an asset to another agency, it would be unwise and unreasonable of the receiving agency to reject this asset simply because the General PP&E documentation was not retained.

Q3. The Board proposes to allow the use of reasonable estimates of the original transaction data historical cost and accumulated depreciation for General 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 General PP&E? Please provide the rationale for your answer.

i. Yes, we agree (as stated in the Q1 response). The proposed amendment to SFFAS 6 allows for various methods to derive reasonable estimates and determine reasonable life of the related General PP&E. We concur with SFFAS 6 paragraph 12 and 13 that the estimates may be based on information such as, but not limited to, budget appropriation, engineering documents, contracts, and other reports reflecting the amount to be expended and alternatively, current replacement costs of similar items.

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 General 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.

i. See response to Q2 above.

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.

i. We do see potential risks to the use of estimating techniques, particularly for assets of significant dollar amounts. In many instances, estimating techniques can be used to produce reliable results that are appropriate for financial reporting. As noted in the responses to Q2 and Q6, management and auditors need to evaluate the potential risk of reporting errors that could result from significant and continued use of estimating techniques. These

evaluated risks should be factored into the determination of whether the Balance Sheet and other financial reporting related to General L PP&E are fairly stated.

ii. While we see the risks involved and the 'chicken or egg' concept based on A20 of the Exposure Draft, we have to acknowledge the difficulties some agencies face to derive the historical costs for capitalization purposes when none exists to begin with. Perhaps the Board may want to define or look into defining certain criteria or frameworks for agencies to use reasonable estimates or allowable estimation methods that are not subject to a date-certain requirement on certain types of General PP&E, such as, the transfers or donation of old assets or recovery of assets through gain by inventory from conditions that are caused by extreme climate conditions or remote locations or abandonment.

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 General PP&E? Please explain what areas require additional clarification and provide the rationale for your answer.

i. We believe management should consider multiple estimating techniques to develop a range of reasonable estimates when significant dollar General PP&E estimates are used. The range of reasonable estimates and the techniques used should be disclosed in footnotes to the financial statements.

ii. Various estimating techniques could produce significantly different results. In addition, today's assets may not be equivalent to similar assets 20 years ago due to advancements and technology improvements. This is why we suggest developing a range of reasonable estimates as well as options (see SFFAS 6 paragraph 12 and 13) for estimating historical costs. Selecting an estimate from the low range would be a conservative approach to minimize potential overstatement of asset values.

COMMENTS ON OTHER ASPECTS OF THE PROPOSED STATEMENT:

i. In reference to the ED paragraph 2, we suggest that any use of estimates to determine historical cost of General PP&E should be disclosed in the financial statements especially for entities using such estimation methods.

ii. Clarification or elaboration should be provided to define the criteria necessary for the estimation of historical cost as opposed to bullet #3 under the suggested revision to SFFAS 6 paragraph 40, 'other reasonable methods.'

iii. One of the benefits of employing estimation methods on a continual basis is that it allows for an independent check on asset values being held on agencies' books. Many agencies have assets that have been on the books for a long time and may not have full documentation to support those values due to gaps in record retention and the aging of records. By utilizing estimation methods, agencies can continually validate the asset values thus allowing auditors and other oversight entities to review and/or validate those numbers.