March 31, 2016

GASB
Attn: Director of Research and Technical Activities
Project No. Project No. 3-27E
Email: director@gasb.org

Thank you for the opportunity to comment on the GASB Exposure Draft (ED), Certain Asset Retirement Obligations. The Financial Reporting Section within the Wisconsin State Controller’s Office is responsible for preparing the State of Wisconsin’s Comprehensive Annual Financial Report (CAFR).

Our comments are as follows:

1. It is unclear how the sale of a tangible capital asset is similar to the abandonment of an asset and would result in a retirement liability (paragraph 4). Presumably the sale of an asset would relieve the government from future responsibilities and associated liabilities. We request GASB provide clarification on sales or consider removing that term from the paragraph.

2. The use of the term “recycling” in paragraph 4 is unclear. Should the word recycling be replaced by “dismantling and reuse or distribution of asset components”?

3. Paragraph 6b indicates the statement does not apply to obligations associated with the preparation of a capital asset for an alternative use. However, this sort of sounds like “recycling” of an asset which is inconsistent with paragraph 4 requirements.

4. Could examples or clarification of “alternative uses” be provided? For example, would the conversion of a coal burning power plant to a natural gas burning power plant or to a solar-powered facility be an alternative use and, therefore, excluded from application of the statement? The phase out of coal fired power plants appears quite common in the U.S. but was not addressed directly in the ED.

5. Paragraph 21 indicates an outflow of resources (expense) should be recognized over the estimated useful life of the asset. Does GASB mean the estimated remaining useful life of the asset? Or, do expenses get reported annually only after the new standard becomes effective? For example, if a government had already been using a capital asset with a depreciable useful life of 40 years for 10 years, would they expense the liability over the remaining 30 depreciable years or over 40 years? If it’s the former, governments with nearly fully depreciated assets would be expensing the entire liability in a short period of time.

6. Must the estimated useful life of an asset under the proposed standard be consistent with the useful life for depreciation purposes?

7. We believe it will be administratively difficult to track financial activity associated with AROs over the period of time from when the asset is acquired or placed into service and when the retirement costs reducing the liability are actually paid. This timeframe could be many decades leading to challenges in matching the budgetary expenditures with the GAAP liability for purposes of eliminating it.
8. Determining the ARO liability requires making legal and technological presumptions decades into the future increasing the risk of significant errors. One could question, then, whether the requirements of paragraph 8 would ever be met. That paragraph states “a government should recognize a liability for an asset retirement obligation when the liability is incurred and reasonably estimable.” GASB may wish to consider whether note disclosures would better inform readers of the potential for liabilities rather than reporting a liability and deferred outflows in the statement of net position.

9. Paragraph 28 states “the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented.” Paragraph B76 states “the Board believes that reasonable efforts should be deployed before a government determines that restatement of all prior periods presented is not practicable. In other words, inconvenient should not be considered equivalent to not practicable”. Practicable means possible. We believe this is a notably higher standard than the old GASB requirement of practical which means sensible, likely to be effective. We agree that reasonable efforts should be taken to restate when implementing a new standard. However, restating prior year financial statements, note disclosures, and management discussion and analysis, especially for the technically complex standards issued by GASB, presents significant challenges for preparers and auditors. By changing the word to “practicable” GASB may inadvertently be encouraging preparers to present just one year of information rather than comparative statements. We encourage GASB to return to the use of the word “practical” as an effective alternative to “practicable”.

10. We remain concerned with the number of GASB standards being proposed or issued. A recent GASB newsletter noted that eight new standards had been issued in 2015 with more planned for 2016 (four EDs have been issued so far with response dates in 2016). The article explained that few governments have to implement all new standards and implementation dates are staggered. However, implementation of new standards is only part of the workload. Studying, researching and attempting to apply proposed standards to existing government operations, even for short EDs, often requires substantial work efforts. For example, to provide a fully analyzed response to the asset retirement obligations ED would require research and analysis by financial statement preparers, attorneys, asset/property managers, government program managers and engineers.

11. Similar concerns exist with implementation guides which are authoritative under the new GAAP hierarchy. Implementation guides for the lengthy and complex OPEB statements 74 and 75 will be exposed and will require preparers to research and analyze detailed information or circumstances prior to being able to formulate a response to GASB. (The implementation guides for pension statements 67 and 68 were 300 pages long.) To partially alleviate the demand on resources, we encourage GASB to consider removing implementation guides as Category B guidance from the GAAP hierarchy. We do not believe the benefits of categorizing implementation guides as Category B are supported by the additional costs.

If you have questions on our comments, please contact me at 608-266-3052.

Sincerely,

Cindy Simon, CPA
Director of Financial Reporting
Wisconsin Department of Administration

cc: Jeff Anderson, Wisconsin State Controller
Kim O’Ryan, NASACT