

**DEPARTMENT OF DEFENSE****GENERAL SERVICES  
ADMINISTRATION****NATIONAL AERONAUTICS AND  
SPACE ADMINISTRATION****48 CFR Part 31****[FAC 90-35; FAR Case 95-003]****RIN 9000-AG73****Federal Acquisition Regulation;  
Impairment of Long-Lived Assets**

**AGENCIES:** Department of Defense (DOD), General Services Administration (GSA), and National Aeronautics and Space Administration (NASA).

**ACTION:** Interim rule, with request for comments.

**SUMMARY:** The Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council have agreed to an interim rule to clarify the allowability of losses recognized when carrying values of impaired assets are written down for financial reporting purposes. This regulatory action was not subject to Office of Management and Budget review under Executive Order 12866, dated September 30, 1993.

**DATES:** *Effective Date:* December 14, 1995.

*Comment Due Date:* To be considered in the formulation of a final rule, comments should be submitted to the address given below on or before February 12, 1996.

**ADDRESSES:** Comments should be submitted to: General Services Administration, FAR Secretariat, 18th & F Streets NW., Room 4037, Washington, DC 20405.

**FOR FURTHER INFORMATION CONTACT:** Mr. Jeremy F. Olson at (202) 501-3775 in reference to this FAR case. For general information, contact the FAR Secretariat, Room 4037, GS Building, Washington, DC 20405 (202) 501-4755. Please cite FAC 90-35, FAR Case 95-003.

**SUPPLEMENTARY INFORMATION:****A. Background**

This interim rule is intended to clarify cost allowability rules concerning the recognition of gains and losses related to long-lived assets. The rule addresses a cost category which is the subject of a Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS), No. 121, dated March 1995, entitled "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of."

The SFAS applies to long-lived assets (such as land, buildings, and equipment), identifiable intangibles, and related goodwill, and establishes guidance to recognize and measure impairment losses. If impaired assets are to be held for use, the SFAS requires a write-down to fair value when events or circumstances (e.g., environmental damage, idle facilities arising from declining business, etc.) indicate that carrying values may not be fully recoverable.

Impaired assets that are to be disposed of, however, would be reported (with certain exceptions) at the lower of cost or fair value less cost to sell. Once written down, the previous carrying amount of an impaired asset could not be restored if the impairment was subsequently removed.

In contrast to the SFAS provisions, Cost Accounting Standard (CAS) 9904.409, "Depreciation of Tangible Capital Assets", provides quite different criteria and guidance to recognize gains and losses for Government contract purposes. The language at 9904.409-40 (a)(4) and (b)(4), 9904.409-50(j), and related Promulgation Comment 10, "Gain or Loss," makes it clear that gains and losses are recognized only upon asset disposal; no other circumstances trigger such recognition.

FAR 31.205-16 reflects the CAS provisions that an asset be disposed of in order to recognize a gain or loss. The FAR rule applies to both CAS and non-CAS covered contracts. Consequently, for Government contract purposes, an impairment loss is recognized only upon disposal of the impaired asset. Like other losses, it is measured as the difference between the net amount realized and the impaired asset's undepreciated balance. Government contractors, therefore, recover the carrying values of impaired assets held for use by retaining pre-write-down depreciation or amortization schedules as though no impairment had occurred. The rule addresses the treatment of losses for impaired assets by adding a new paragraph (o) at 31.205-11, and revising the title and adding a new paragraph (g) at 31.205.16.

**B. Regulatory Flexibility Act**

The interim rule is not expected to have significant economic impact on a substantial number of small entities within the meaning of the Regulatory Flexibility Act, 5 U.S.C. 601 *et seq.* because most contracts awarded to small entities are awarded on a competitive fixed-price basis and the cost principles do not apply. An Initial Regulatory Flexibility Analysis has, therefore, not been performed.

Comments are invited from small businesses and other interested parties. Comments from small entities concerning the affected FAR parts will also be considered in accordance with 5 U.S.C. 610. Such comments must be submitted separately and cite 5 U.S.C. 601, *et seq.* (FAC 90-35, Far case 95-003) in correspondence.

**C. Paperwork Reduction Act**

The Paperwork Reduction Act does not apply because the rule does not impose any reporting or record keeping requirements which require the approval of the Office of Management and Budget under 44 U.S.C. 3501, *et seq.*

**D. Determination To Issue an Interim Rule**

A determination has been made under authority of the Secretary of Defense (DOD), the Administrator of General Services (GSA), and the Administrator of the National Aeronautics and Space Administration (NASA) that, pursuant to 41 U.S.C. 418b, urgent and compelling reasons exist to publish an interim rule prior to affording the public an opportunity to comment. This action is necessary because the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, dated March 1995, requires all publicly owned firms to recognize impairment losses in their financial statements for fiscal years beginning after December 15, 1995. It is likely that Government contractors whose 1996 fiscal year begins after December 15, 1995, will recognize impairment losses for financial reporting and claim a portion of such losses either on current contracts or on those awarded after December 15, 1995. In order to ensure that contractors' impairment losses are not paid by the Federal Government, it is necessary to issue this clarification of existing cost principles expeditiously. However, pursuant to Public Law 98-577 and FAR 1.501, public comments received in response to this interim rule will be considered in formulating the final rule.

**List of Subjects in 48 CFR Part 31**

Government procurement.

Dated: December 8, 1995.

Edward C. Loeb,  
*Acting Director, Office of Federal Acquisition Policy.*

Federal Acquisition Circular  
Number 90-35

Federal Acquisition Circular (FAC) 90-35 is issued under the authority of the Secretary of Defense, the Administrator of General

Services, and the Administrator for the National Aeronautics and Space Administration.

Unless otherwise specified, all Federal Acquisition Regulation (FAR) and other directive material contained in FAC 90-35 is effective December 14, 1995.

Dated: December 1, 1995.

Eleanor R. Spector,  
*Director, Defense Procurement.*

Dated: December 6, 1995.

Ida M. Ustad,  
*Associate Administrator, for Acquisition Policy.*

Dated: December 7, 1995.

Tom Luedtke,  
*Deputy Associate Administrator for Procurement, NASA.*

Therefore, 48 CFR Part 31 is amended as set forth below:

**PART 31—CONTRACT COST PRINCIPLES AND PROCEDURES**

1. The authority citation for 48 CFR Part 31 continues to read as follows:

Authority: 40 U.S.C. 486(c); 10 U.S.C. chapter 137; and 42 U.S.C. 2473(c).

2. Section 31.205-11 is amended at the end of paragraph (e) by adding the parenthetical “(but see paragraph (o) of this subsection).”; and by adding paragraph (o) to read as follows:

**31.205-11 Depreciation.**

\* \* \* \* \*

(o) In the event of a write-down from carrying value to fair value as a result of impairments caused by events or changes in circumstances, depreciation of the impaired assets shall not exceed the amounts established on depreciation

schedules in use prior to the write-down (see 31.205-16(g)).

3. Section 31.205-16 is amended by revising the section heading and adding paragraph (g) to read as follows:

**31.205-16 Gains and losses on disposition or impairment of depreciable property or other capital assets.**

\* \* \* \* \*

(g) With respect to long-lived tangible and identifiable intangible assets held for use, no loss shall be recognized for a write-down from carrying value to fair value as a result of impairments caused by events or changes in circumstances (e.g., environmental damage, idle facilities arising from a declining business base, etc.). Depreciation or amortization on pre-write-down carrying value of impaired assets not yet disposed of shall continue to be recoverable under established depreciation or amortization schedules to the extent it is not otherwise unallowable under other provisions of the FAR.

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**48 CFR Part 31**

[Federal Acquisition Circular 90-35]

**Federal Acquisition Regulation; Rates of Inflation**

**AGENCIES:** Department of Defense (DOD), General Services Administration (GSA), and National Aeronautics and Space Administration (NASA).

**ACTION:** Annual notice of rates of inflation.

The Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council have agreed to publish as an information item, the rates of inflation which are used in conjunction with other factors to determine the allowability of IR&D/B&P costs for major contractors under 31.205-18(c)(2)(i)(C)(2) during the first three contractor fiscal years beginning on or after October 1, 1992. The following rates of inflation are effective immediately, and shall remain in effect until superseded by the next publication, which is anticipated in January 1996:

Fiscal year	Annual percentage rate
1994 .....	2.5
1995 .....	2.9
1996 .....	3.0
1997 .....	3.0

The above rates are the Price Escalation Indices for the Research, Development, Test & Evaluation (RDT&E) Account, Total Obligation Authority (TOA), issued by the Principal Deputy Under Secretary of Defense (Comptroller) on January 10, 1995. These rates of inflation supersede those published in FAC 90-23, Item XL—Annual Notice of Rates of Inflation, in the Federal Register on December 28, 1994.

Dated: December 8, 1995.

Edward C. Loeb,  
*Acting Director, Office of Federal Acquisition Policy.*

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