**MINUTES**

Financial Accounting Standards Board

**To:** Board Members

**From:** Interpretation of FAS 143 Team
(Gagon, Ext. 322)

**Subject:** Minutes of the April 7, 2004 Board Meeting **Date:** April 9, 2004

**cc:** Bielstein, Smith, Petrone, Leisenring, Golden, Project Team, Thompson, Vincent, Gabriele, Swift, Polley, FASB Intranet (e-mail)

Topic: Application of FASB Statement No. 143, *Accounting for Asset Retirement Obligations,* to legal obligations to perform asset retirement activities when the retirement of the asset is conditional on a future event, effective date, transition requirements, and comment period

Basis for Discussion: Board memorandum 1 dated March 24, 2004 and Board memorandum 2 dated April 2, 2004

Length of Discussion: 11:30 a.m. to 11:50 a.m.

Attendance:

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| Board members present: | Herz, Trott, Schipper, Batavick, Crooch, Schieneman, and Seidman |
| Board members absent: | None |
| Staff in charge of topic: | Sogoloff |
| Other staff at Board table: | Smith, Golden, MacDonald, Westerlund, and Gagon |
| Outside participants: | Leisenring (IASB) |

**<u>Summary of Decisions Reached</u>:**

The Board discussed whether FASB Statement No. 143, *Accounting for Asset Retirement Obligations,* requires an entity to recognize a liability for a legal obligation to perform asset retirement activities when the retirement of the asset is conditional on a future event. The Board also discussed what the appropriate effective date, transition requirements, and comment period would be for the proposed Interpretation of Statement 143.

The Board decided that Statement 143 requires an entity to recognize a liability for a legal obligation to perform asset retirement activities when the retirement of the asset is conditional on a future event. Any uncertainty with respect to if and when the asset will be retired should be factored into the measurement of the fair value of the liability.

The Board decided that the proposed Interpretation should be effective for financial statements issued for fiscal years ending after December 15, 2005 (December 31, 2005 for calendar year-end enterprises). Initial application of this Interpretation should be as of the end of an enterprise's fiscal year. Thus, an entity will not be allowed to restate interim financial information.

Furthermore, the Board decided that the requirements for recognition of transition amounts should be consistent with Statement 143. Amounts resulting from initial application of the Interpretation should be measured using the current information, current assumptions, and current interest rates that are applicable at the date the Interpretation is adopted. The amount recognized as an asset retirement cost should be measured as of the date the asset retirement obligation was incurred. Cumulative accretion and accumulated depreciation should be measured for the time period from the date the liability would have been recognized had the provisions of the Interpretation been in effect to the date of adoption of the Interpretation. For recognition of transition amounts, an entity should recognize the cumulative effect of initially applying the provisions of this

Interpretation as a change in accounting principle as described in paragraph 20 of APB Opinion No. 20, *Accounting Changes.*

Lastly, the Board decided that the comment period for the Exposure Draft of the proposed Interpretation should be limited to 45 days. The Exposure Draft is expected to be issued in the second quarter of this year.

**Objective of Meeting:**

The objective of the Board meeting was to discuss and reach a tentative decision as to whether Statement 143 requires an entity to recognize a liability for a legal obligation to perform asset retirement activities when the retirement of the asset is conditional on a future event. If the Board decided that Statement 143 does require an entity to recognize a liability, the staff also wanted to discuss the effective date, transition requirements, and comment period for the proposed Interpretation.

**Matters Discussed and Decisions Reached:**

Mr. Sogoloff began the meeting by stating that the purpose of the meeting was to discuss and reach a decision as to whether Statement 143 requires an entity to recognize a liability for a legal obligation to perform asset retirement activities when the retirement of the asset is conditional on a future event. Mr. Sogoloff then discussed the following two views of respondents to the proposed FSP FAS 143-X, "Applicability of FASB Statement No. 143, *Accounting for Asset Retirement Obligations,* to Legislative Requirements on Property Owners to Remove and Dispose of Asbestos or Asbestos-Containing Materials."

> View A: Statement 143 requires an entity to recognize a liability for a legal obligation to perform asset retirement activities when the retirement of the asset is conditional on a future event. The uncertainty with respect to if and when the asset will be retired should be factored into the measurement of the fair value of the liability.

> View B: Statement 143 does not require an entity to recognize a liability for a legal obligation to perform asset retirement activities when the retirement of the asset is conditional on a future event.

The staff recommended view A and stated that view A more appropriately interprets Statement 143.

The Board tentatively agreed with the staff's recommendation and stated that they believe view A more accurately reflects the prior Board's intent when Statement 143 was initially issued. Mr. Herz stated that although he will not object to view A, he is troubled because view A seems to be inconsistent with the construction of a liability in other literature and projects. Mr. Herz referenced the second characteristic of a liability that states "the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice."[1] He further stated that the analogy to FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,* may not be entirely analogous because under Interpretation 45, the entity is left with little or no control to avoid the liability or the obligation to stand ready to perform.

Having reached a tentative decision on the first issue, Mr. Sogoloff then discussed the effective date and transition requirements of the proposed Interpretation. Mr. Sogoloff stated that the anticipated issuance date of the final Interpretation is September 2004. Based on this anticipated issuance date, the staff recommended the following effective date alternatives:

1. This Interpretation shall be effective for financial statements issued for fiscal years beginning after December 15, 2004 (January 1, 2005 for calendar year-end enterprises).

2. This Interpretation shall be effective for financial statements issued for fiscal years ending after December 15, 2004 (December 31, 2004 for calendar year-end enterprises).

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[1]FASB Statement of Concepts No. 6, *Elements of Financial Statements,* paragraph 36.

3. This Interpretation shall be effective for financial statements issued for fiscal years beginning after December 15, 2005 (January 1, 2006 for calendar year-end enterprises).

4. This Interpretation shall be effective for financial statements issued for fiscal years ending after December 15, 2005 (December 31, 2005 for calendar year-end enterprises).

The Board tentatively decided that the proposed Interpretation should be effective for financial statements issued for fiscal years ending after December 15, 2005 (December 31, 2005 for calendar year-end enterprises). Initial application of the Interpretation should be as of the end of an enterprise's fiscal year. Thus, an entity will not be allowed to restate interim financial information. The Board believed that this alternative would provide companies with sufficient time to make the necessary measurements and calculations but would not postpone adoption for an additional year.

Furthermore, Mr. Sogoloff stated that the requirements for recognition of transition amounts should be consistent with Statement 143. Amounts resulting from initial application of the Interpretation should be measured using the current information, current assumptions, and current interest rates that are applicable at the date the Interpretation is adopted. The amount recognized as an asset retirement cost should be measured as of the date the asset retirement obligation was incurred. Cumulative accretion and accumulated depreciation should be measured for the time period from the date the liability would have been recognized had the provisions of the Interpretation been in effect to the date of adoption of the Interpretation. For recognition of transition amounts, an entity should recognize the cumulative effect of initially applying the provisions of this Interpretation as a change in accounting principle as described in paragraph 20 of Opinion 20. The Board tentatively agreed with the staff's recommendation.

Lastly, the staff recommended that the comment period for the Exposure Draft of the proposed Interpretation should be limited to 45 days. The Board tentatively agreed with the staff's recommendation. Mr. Sogoloff indicated that the Exposure Draft is expected to be issued in the second quarter of 2004.

**Follow-up Items:**

None

**General Announcements:**

None