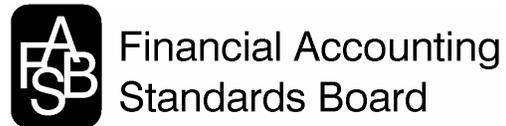


MINUTES



**To:** Board Members  
**From:** Interpretation of FAS 143 Team  
(Kispert, Ext. 310)  
**Subject:** Minutes of January 26, 2005 Board Meeting      **Date:** February 4, 2005  
**cc:** Bielstein, L. Smith, Petrone, Leisenring, Golden, Project Team, Swift,  
Polley, Thompson, Getz, Gabriele, Sutay, FASB Intranet (e-mail)

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

Topic: FASB proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations*

Basis for Discussion: Memorandum dated January 13, 2005

Length of Discussion: 10:10 am to 11:20 am

Attendance:

Board members present: Herz, Trott, Batavick, Crooch, Schipper, Young, and Seidman

Board members absent: None

Staff in charge of topic: Sogoloff

Other staff at Board table: L. Smith, Westerlund, and Kispert

Outside participants: None

**Summary of Decisions Reached:**

At today's meeting, the Board decided:

- To not add a project to the Board's technical agenda to reconsider the guidance in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*
- To provide additional guidance in the proposed Interpretation for evaluating whether sufficient information is available to make a reasonable estimate of the fair value of an asset retirement obligation as it relates to the timing of settlement.

**Objective of Meeting:**

The objective of today's Board meeting was for the Board to decide whether Statement 143 should be reconsidered. (Additionally, the Board was asked to decide whether additional guidance for evaluating whether sufficient information is available to make a reasonable estimate of the fair value of an asset retirement obligation should be included in the proposed Interpretation.)

**Matters Discussed and Decisions Reached:**

1. Mr. Sogoloff began the meeting by stating that the Board received an agenda request dated September 8, 2004 requesting that the Board reconsider Statement 143. The constituent group that submitted the request believes that the Board should reconsider Statement 143. In response to this agenda request, the FASB staff is asking the Board to decide whether to add a project to the Board's technical agenda to reconsider the guidance in Statement 143.
2. Mr. Trott stated that he does not support adding a project to the Board's agenda to reconsider the guidance in Statement 143. He does not believe that the letter received by the Board brought forth any new information that has not been discussed during the deliberations of the Exposure Draft of the proposed Interpretation and during the deliberations of Statement 143.

3. Ms. Schipper observed that the basis for conclusions in Statement 143, the implementation guidance, and Statement 143 itself made it clear that the issues raised by constituents were considered during the deliberations of Statement 143. Specifically, paragraph B19 discusses asset retirement obligations with indeterminate settlement dates, and B25 addresses an entity's promise that is conditional on the occurrence of a specified future event that is or is not within the entity's control. Therefore, she does not support reconsidering Statement 143.
4. Mr. Crooch agreed not to reconsider Statement 143 after reviewing Statement 143 and the basis for conclusions and finding that the intent of the Board was very clear. Mr. Crooch stated that because no new information was brought forth, he does not support reconsidering Statement 143.
5. Ms. Seidman clarified that the specific request was to reconsider whether a conditional asset retirement obligation meets the definition of a liability. In that respect, she does not support reopening Statement 143. Ms. Seidman also noted that Statement 143 went through extensive due process and she does not believe the Board should reopen the fundamentals of a Statement because of personal preference. However, she observed that significant operational issues have been raised about the application of the guidance, but that concern will be addressed later in the meeting.
6. Mr. Young expressed concern about the disclosures aspect of the proposed Interpretation. Mr. Young stated that when an asset retirement obligation is not reasonably estimable, the entity will not record a liability. He believes that this is a serious deficiency, from an investor's perspective, when there are uncertainties and no liability is recorded. He suggested possibly adding a requirement to disclose the amount that the entity would be required to pay if it settled the obligation today.
7. Mr. Trott responded that if an entity does not record a liability for an asset retirement obligation because it is not reasonably estimable, that fact and

the reasons why must be disclosed. However, “as if” disclosures are not currently required.

8. Mr. Herz stated that he does not support revisiting the basic accounting model in Statement 143. Although his preference may have been not to use a fair value measurement approach, he acknowledges that the issues raised by constituents are addressed and well-documented in the basis for conclusions.
9. Mr. Sogoloff stated that because the Board has decided not to reconsider Statement 143, the FASB staff has some additional questions for the Board. The original objective of the Interpretation was to address the diversity in practice of when AROs are recognized by clarifying that the term *conditional asset retirement obligation* as used in Statement 143, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The asset retirement obligation is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty surrounding the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. Many constituents believe that guidance should be included in the Interpretation to assist in determining when sufficient information exists to reasonably estimate the fair value of asset retirement obligations. This guidance, if included, would relate to all asset retirement obligations, not just conditional asset retirement obligations. Statement 143 includes some guidance related to AROs with indeterminate settlement dates. The FASB staff asked the Board whether the scope of the Interpretation should be expanded to include guidance to assist in determining when sufficient information exists to reasonably estimate the fair value of asset retirement obligations.
10. Mr. Trott stated that this issue was previously deliberated and that the implementation guidance in paragraphs A14-A17 of Statement 143 was

intended to provide sufficient guidance for determining when a reasonable estimate can be determined not just for conditional asset retirement obligations, but for all asset retirement obligations. The Board stopped providing additional guidance because of the multitude of facts and circumstances that could not be anticipated. Additionally, the Board felt that this was an area in which appropriate judgment by the auditor and preparer would be sufficient. Mr. Trott stated that he believes one of the issues before the Board is the question of whether it is appropriate to reach a conclusion that it is not possible to make a reasonable estimate of the liability at this point in time. That judgment was possibly second-guessed by others. Thus, Mr. Trott suggested emphasizing in the proposed Interpretation that determining whether insufficient information exists to make a reasonable estimate of fair value is an appropriate judgment to be made. Mr. Trott expressed concern about providing specific guidelines about when a reasonable estimate cannot be made.

11. Mr. Herz clarified that Mr. Trott does not want to create a cookbook approach to applying judgment. Mr. Trott concurred.
12. Mr. Sogoloff noted that the timing issue seems to be the focus of major concern. Mr. Crooch stated that the constituent letter the Board received addressed issues other than timing, such as how the obligation will be settled, what method will be used, and the commencement date. He stated that he believes that if an entity were facing uncertainty for all of those factors, then the liability would not be reasonably estimable. Judgment would be needed to make that conclusion.
13. Ms. Seidman stated that the comment letters on the proposed Interpretation have to do with what was perceived as a very narrow interpretation of when one can conclude that there is not sufficient information to reasonably estimate the obligation. She believes that the concern stems from the statement that uncertainty should be reflected in the measurement of the liability, not its recognition. She stated that she believes people are confused about what the Board's intent is with this Interpretation. She

suggested providing guidance for a broader range of circumstances where one might conclude that there is insufficient information to reasonably estimate the fair value of the obligation. Time is a key consideration in that analysis; in other words, to the extent that there are no boundaries of time or an extremely lengthy period of time, that bears on a person's ability to make a reasonable estimate of the timing and the amount of the cash flows. Ms. Seidman stated that she supports providing additional guidance (not a cookbook) and likes the path that the staff was pursuing in its ballot draft to the Board.

14. Ms. Schipper noted that she had taken a different approach for addressing this issue. She noted that the term "reasonably estimable" can be defined in many ways. For example, one may define it in terms of the nature of the item. That was done in Statement 141 where the Board concluded that separable items and legal and contractual items, by definition, would be reasonably estimable. The nature of the data being available is another way to define reasonably estimable. In other words, being reasonably estimable has nothing to do with the nature of the item, but rather whether data exists describing the item can be obtained at a reasonable cost. Third, the measure itself could define whether something is reasonably estimable. There are two branches to that definition—first, there might be characteristics of a measure that, in and of itself, make it reasonably estimable. For example, a low dispersion of independent measurers all looking at the same fact pattern might constitute reasonable estimation. Second, a low level of dispersion around the point estimate itself may constitute reasonably estimable. A large number of independent measurers might all agree on the point estimate and might all agree on the dispersion around that point-estimate. So, there is agreement on the number, but the point-estimate itself is subject to much dispersion.
15. Ms. Schipper stated that she does not know what the Board's constituents mean by the term "reasonably estimable" because they could mean any of those definitions that she just mentioned. She believes that for asset

retirement obligations, the intrinsic characteristics of the item itself are giving rise to the difficulty in measurement (that is, the conditionality of the obligations, the fact that the methods of settlement may change over time, and the fact that the notion of when it might be settled can change over time). Thus, she reached the conclusion that this is supposed to be a judgment-based determination based on the facts and circumstances that are known to the preparer and auditor at the time that the determination is being made. Ms. Schipper believes that the Board should not (a) describe which conditional asset retirement obligations by their nature are reasonably estimable, (b) describe the characteristics of the information that would make it reasonably estimable because those change over time, and (c) get into the statistical constructs that would be necessary to discuss the last two ways to define reasonably estimable. Her personal view is that an appropriate and efficient way to solve this is to clarify that when Statement 143 was issued, the Board intended that this should be a management judgment and that management would compile the reasons for that judgment and disclose that information as required in paragraph 22.

16. Mr. Trot stated that for most of the asset retirement obligations that are booked today, there is a relatively well-accepted technological methodology for resolving the asset retirement issue, especially for asbestos. Paragraph A20 and the environmental remediation SOP both recognize that there will be technological advances, and they can be considered, but an entity cannot avoid recording a liability today because it expects that one day in the future it will find some type of bacteria or bug to remediate that obligation. An entity would base its estimated method of settlement, in regards to technology, on the conditions that exist today and advances that one can reasonably estimate. Most of the issues regarding the method of settlement that were discussed in Statement 143 were when the counterparty has the control of the specific method. That is, the counterparty may require the entity to take down the building, or will allow the entity to satisfy the obligation by turning over the title to that building.

That is said in Statement 143. Mr. Trot stated that he does not believe that method, such as future advances in technology, should be used as a basis for not recording a liability today. Instead, changes in method should be appropriately accounted for as provided in Statement 143 as an adjustment of the amount of future cash flows that will be required. He noted that the Board has spent considerable time discussing remeasurement without doing a fresh-start fair value measurement. The focus of the guidance should be to express that this is a judgment-based standard, and most often, that judgment revolves around timing.

17. Mr. Westerlund agreed that, in practice, most questions regarding asset retirement obligations revolved around the timing of the settlement, not the method.
18. Ms. Schipper stated that she would like to clarify that when she discussed method of settlement, she meant performance as opposed to transfer because an entity could settle an asset retirement obligation either by doing something or by selling. It may be under the entity's control as to when the timing of settlement will occur, but if it occurs at an early point, it will occur by transfer, and if it occurs at a later point, it will occur by performance. Ms. Schipper clarified that she did not mean advances in technology when she discussed methods of settlement. When referring to methods of settlement, she meant transfer versus performance.
19. Mr. Herz stated that there is the possibility that the building will be sold with asbestos. That would confound the timing issue because each successive buyer will take into account the asbestos, but it is going to be a future remediation.
20. Mr. Trott stated that the Board is well aware that selling is a transfer, and that the Board was explicit in Statement 143 that a transfer or a sale is not the resolution of the asset retirement obligation, but a passing of the asset retirement obligation. Part of the negotiations would be based on the cost that one would expect to incur if one were to settle and the time period that the settlement would occur. The counterparty would negotiate based on his

time period of settlement. That issue would most likely get resolved upon the expectation of the buyer's timing rather than the seller's timing unless the seller was under pressure to either get it sold or resolved.

21. Mr. Batavick stated that after listening to all of the comments, he agrees that the Board's intent was to make Statement 143 a judgment-based standard. However, he believes that people are confused because paragraph A14 states that uncertainty about the timing of settlement will not remove the obligation but will affect the measurement. However, paragraph A16 states that if there is insufficient information to reasonably estimate the obligation, a liability should not be recognized. He believes that people are struggling to reconcile those two paragraphs. Therefore, he is in favor of putting some additional guidance in the Interpretation about the timing and method of settlement, while also reemphasizing that Statement 143 is a judgment-based standard. He acknowledged that the method of settlement may be a subset of the timing issue.
22. Mr. Batavick questioned a situation in which an entity believes that there is ground contamination which will need to be remediated, but in order to determine the cost, the entity must determine how bad the contamination is and what the contaminants are. Therefore, this entity must drill wells to determine that information. Under Statement 143, what conclusion could be reached?
23. Mr. Trott stated that the situation Mr. Batavick described is not a Statement 143 event, but is an environmental remediation liability.
24. Mr. Herz noted that some constituents have given the example that they have thousands of buildings around the world and each country has its own laws. Should the entity have to analyze the laws and investigate every building to see if there is asbestos?
25. Mr. Trott stated that the entity must do an investigation. The approach is based on identifying obligations and recognizing them at an appropriate time. The fact that settlement is a long way off will affect the materiality of the measure.

26. Ms. Seidman expressed concern that, in that scenario, there may be extremely lengthy periods of time and alternative methods of settlement. One can assign probabilities to all of those scenarios, but the number that is calculated may not be representationally faithful of the obligation it is trying to represent.
27. Mr. Trott stated that that is why the guidance provides for when an entity cannot make a reasonable estimate.
28. Ms. Seidman stated that paragraph A20 states that it is expected that uncertainties about the amount and timing of future cash flows can be accommodated by using the expected cash flow technique and therefore will not prevent the determination of a reasonable estimate of fair value. Ms. Seidman noted that that guidance seems like a bright line to do the math, even if it may not be representationally faithful.
29. Mr. Herz agrees that this is a judgment-based standard, but believes that there needs to be some clarification. He is not certain whether the best vehicle to do that would be an amendment or an Interpretation.
30. Ms. Seidman stated that the Board can interpret that some of the statements made in Statement 143 are in the context of when sufficient information exists.
31. Mr. Crooch stated that there are two ends of the spectrum regarding sufficient information. At one end, the entity knows the exact day, month, or year of settlement. At the other end, the entity absolutely does not know when the obligation will be settled. There are most likely not many situations that fall into one of those two categories. Thus, this is a judgment-based standard. The Board thought it was better to use the probable trigger because the risk and timing could be incorporated into the measurement of the obligation.
32. Ms. Schipper clarified that the staff is asking the Board to distinguish between a dearth of information (that is, there is no data to form an estimate) and having information that results in a big dispersion around the measurement. The fact that there is a big dispersion around the

measurement does not preclude an entity from making a point estimate. Not having information does preclude an entity from making a point estimate; For example, a distribution with a central tendency but a lot of dispersion around that central point is not a lack of information. A lack of information would occur if the entity cannot determine the shape of the distribution. Ms. Schipper stated that paragraph A16 is intended to address the situation in which the entity cannot determine the shape of the distribution.

33. Mr. Smith gave another example to clarify Ms. Schipper's point. There is a situation in which we know the method of settlement to be used to clean up the site and we can put, in today's dollars, an amount on it within a reasonable range. However, we are operating the plant and have no intention of stopping the operation and we believe that we can upkeep it so it will last at least 120 years. Yet, we cannot put any great probability assessments on when this obligation may be retired. We can start by saying that from years 20 to 120, we will use a one percent probability for each year because no year is better than the other. In that situation, one would be able to make a point estimate.
34. Ms. Schipper agreed that a point estimate could be made. However, that situation illustrates a uniform distribution, where every point on the distribution has an equal opportunity of one percent. The width of that distribution is 100 years apart. One can calculate a central tendency, but there is a lot of dispersion around that central point.
35. Mr. Smith asked the Board whether in that situation an entity would be required to record an asset retirement obligation.
36. Ms. Schipper stated that she believes one would record a liability but it would not be very big.
37. Mr. Herz stated that he would not record a liability because there is no basis for assigning each year a probability of one percent. Mr. Smith clarified that the basis for doing that was that there was no basis for any other probability. Mr. Smith stated that he asked that question because people would not like

Ms. Schipper's conclusion. Right now, a number of Board members have indicated that they believe the Interpretation should comment on timing. That creates certain difficulties because, as Ms. Seidman pointed out, there appears to be inconsistencies in Statement 143. Mr. Smith expressed concern that if the Board focuses people on timing, they will not come to the same conclusion as Ms. Schipper.

38. Ms. Schipper tested the fact pattern by eliminating the uncertainty. She stated that if we are quite certain of the one percent probability each year for 100 years, starting in 20 years, we can calculate a point estimate even though there is great dispersion around that estimate. Would a liability be recorded in this situation?
39. Mr. Trott stated that he would record a liability because that situation illustrates the power of a fair value measurement and incorporates the uncertainty. In Ms. Schipper's situation, there was a basis for the one percent. If there is no basis other than to pick something, then there is most likely uncertainty as to how to make a reasonable estimate. Mr. Trott asked Mr. Batavick how his company made reasonable estimates.
40. Mr. Batavick answered that every project had a production profile which would be used to determine the number of barrels that would be produced, the estimate of the cost of abandonment, and the per barrel charge.
41. Mr. Trott asked whether those estimates were refined over the life of the operations.
42. Mr. Batavick concurred because oil operations have a finite life. When the company got to the refining operations, the company said that there was an indeterminate life and no asset retirement obligations were recorded. What the Board is hearing is that people are having to make speculative assumptions.
43. Mr. Smith asked whether the Board members would record a liability in a situation in which an entity is almost certain that a settlement will take place in 100 years, but has no idea in which year that settlement would take

place. Would there be sufficient uncertainty surrounding the estimate for you to not record a liability?

44. Mr. Trott stated that he would probably not record a liability.
45. Mr. Smith stated that this discussion was very helpful for drafting purposes. Mr. Smith agreed that if you have a situation in which you know that settlement will occur between year 10 and year 20, you should record a liability. He observed that he is trying to distinguish that from a situation in which there is a very wide settlement period.
46. Ms. Schipper stated that, in other words, as the width of the settlement period increases, it becomes more necessary to assign probabilities to each year. Therefore, if there is a very long settlement period with no ability to assign probabilities to individual years with reason, that results in a big measurement uncertainty. However, if the settlement period shrinks or one has the ability to assign probabilities to subperiods, then there is not a big measurement uncertainty.
47. Mr. Smith agreed with Ms. Schipper's assessment and noted that he has heard that from many people. Ms. Schipper further noted that an entity should not assume a uniform basis of probability unless there is a reasonable basis for doing so.
48. Mr. Crooch stated that Statement 143 talks about reasonable estimates. The input the Board is getting from constituents is that they cannot do this accurately.
49. Ms. Seidman stated that she believes the issue is broader than that. Mr. Herz agreed with Ms. Seidman that people are arguing that the guidance in paragraphs A14 and A20 of Statement 143 is forcing them to make up numbers. That was not the intention. Only when you have sufficient information for a reasonable distribution do you employ the approach discussed in those paragraphs.
50. Mr. Herz returned to Mr. Young's earlier concern about disclosures. Mr. Smith asked the Board whether they would like the staff to further explore enhanced disclosures.

51. Ms. Seidman expressed concern over the quality of that information.
52. Ms. Schipper asked Mr. Young what an analyst would do with that “as if” information.
53. Mr. Young replied that it would be used to show an outstanding obligation that is not captured in the financial report. It would tell the analyst more than not telling the analyst anything.
54. Ms. Schipper stated that that number would be useless for calculating the intrinsic value of an entity in a conventional residual income model because that number does not have a discount rate on it.
55. Mr. Young stated that analysts look at break-out values, asset values, and tangible book values. A large obligation like an asset retirement obligation may be netted against some of the different measures used in their valuation screens.
56. Ms. Schipper noted that would be a misuse of the number.
57. Mr. Trott stated that the current disclosure is intended to notify the users that there are unrecorded obligations that should be considered.
58. It was agreed that the staff would not explore this issue.
59. Mr. Smith summarized the Board’s discussion. He stated that the Board supported tying the uncertainty to timing. There would be no specific discussion of methods of settlement in terms of technology advancements. It would also be useful to address the notion of when an entity cannot assess probability to given years so as to help people understand when uncertainty in measurement exists.

**Follow-up Items:**

None.

**General Announcements:**

None.