

**Notice for Recipients  
of This Proposed FASB Staff Position**

This proposed FASB Staff Position (FSP) addresses the accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the “Directive”) issued by the European Union. Specifically, this proposed FSP will address whether commercial users of electronic equipment or producers of electronic equipment sold to both commercial users and private households should recognize the effects of the Directive with respect to historical waste under U.S. GAAP, and if so, when and how to account for those effects. This proposed FSP does not address the accounting for new waste.

Commercial users should apply the provisions of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, to the obligation associated with historical waste since this type of obligation is an asset retirement obligation. The accounting for the initial recognition and measurement of the liability and asset retirement cost should be consistent with paragraphs 3–12 in Statement 143. If the asset is subsequently replaced, with the obligation being transferred to the producer of the replacement equipment, the commercial user should determine the portion of the total amount paid to the producer that relates to the replacement equipment (the new asset) and the portion that relates to the transfer of the asset retirement obligation. That determination should be based on the amount at which the asset without the assumption of the retirement obligation could be exchanged in a current transaction between knowledgeable, unrelated willing parties. That amount should be used in determining the new asset’s cost basis. The commercial user would derecognize the liability from its balance sheet, and the amount that relates to the transfer of the obligation should be used to determine the gain or loss as a result of the transfer. The producer of the replacement equipment would recognize a liability for the fair value of the obligation upon the transfer of the obligation from the commercial user.

The Directive provides that the financing of historical waste held by private households is to be borne collectively by producers that are selling in the market during each measurement period (to be defined by each EU-member country). The volume of equipment that qualifies as historical waste that those producers have sold in the market prior to the measurement period is not considered. Producers will be required to contribute proportionately based on their participation in the market (for example, in proportion to their respective shares of the market by type of equipment). However, the exact method to be used to compute the respective proportions will be determined by each EU-member country. If, for example, the method is based on each company’s respective share of the market by type of equipment during the measurement period, a liability for the obligation, with an offsetting amount to expense, shall be recognized over the measurement period for the appropriate portion of the cost based on the entity’s estimated market share. The liability should be adjusted as actual market share information is received. The obligation is triggered by participation in the market during the measurement period and therefore should not be recognized prior to the beginning of that period.

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not.

Comments are most helpful if they identify the issues or specific paragraph or group of paragraphs to which they relate and clearly explain the issue or question. Those who disagree with provisions of this proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

*Issue 1:* Do you agree that guidance is necessary to address the accounting for electronic equipment waste obligations associated with historical waste held by commercial users and private households?

*Issue 2:* Do you believe that the liability for obligations associated with historical waste held by commercial users and private households within the EU-member countries will be of such significance to entities preparing financial statements in accordance with U.S. GAAP that authoritative guidance should be provided by the Board?

**PROPOSED FASB STAFF POSITION**

**No. FAS 143-a**

**Title:** Accounting for Electronic Equipment Waste Obligations

**Comment Deadline:** April 21, 2005

1. The Board directed the FASB staff to issue this FASB Staff Position (FSP) to address the accounting for obligations associated with Directive 2002/96/EC on Waste Electrical and Electronic Equipment (the “Directive”) issued by the European Union.

**Background**

2. The Directive was enacted on February 13, 2003 and directs EU-member countries to adopt legislation to regulate the collection, treatment, recovery, and environmentally sound disposal of electrical and electronic waste equipment. The actual legislation adopted by individual EU-member countries can have different requirements. An enterprise should apply the guidance herein, adjusted as needed for the specific requirements of the applicable EU-member country.

3. The Directive distinguishes between “new” and “historical” waste. New waste relates to products put on the market after August 13, 2005. All products put on the market<sup>1</sup> on or before this date are deemed to be historical waste for the purposes of the Directive. For the financing of historical waste, the Directive also distinguishes between historical waste from private households and historical waste from “users other than private households” (that is, commercial users).

4. Questions have arisen as to whether commercial users of electronic equipment or producers of electronic equipment sold to both commercial users and private households should recognize the effects of the Directive with respect to historical waste under U.S.

---

<sup>1</sup> The term *put on the market* is not defined in the Directive. It is the FASB staff’s understanding that the term has been interpreted in practice to mean “sold” since it is expected that the cost incurred will be driven by market share based on sales.

GAAP, and if so, when and how to account for those effects. This FSP does not address the accounting for new waste.

## **FASB Staff Position**

### **Historical Waste Held by Commercial Users**

5. The Directive contains the following requirements with respect to historical waste held by commercial users:

- a. When historical waste equipment is replaced after August 13, 2005, the commercial user may settle the waste management obligation for that equipment by (1) transferring the obligation, at the date the equipment is replaced, to the producer of the *replacement* equipment or (2) disposing of the equipment in a manner permitted by the EU-member country. EU-member countries may provide that commercial users remain partly or totally responsible for the cost of disposal of historical waste even if the equipment is replaced.
- b. When historical waste equipment is not replaced, the waste management obligation remains with the commercial user.

6. Under the Directive, the waste management obligation remains with the commercial user until the historical waste equipment is replaced, at which time the waste management obligation for that equipment may be transferred to the producer of the replacement equipment depending on the law adopted by each EU-member country. If the commercial user does not replace the equipment, the obligation remains with that user until it disposes of the equipment.<sup>2</sup> The Directive effectively obligates a commercial user to incur costs associated with the retirement of a specified asset that qualifies as historical waste. The commercial user should apply the provisions of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, to the obligation associated with historical waste since this type of obligation is an asset retirement obligation. The

---

<sup>2</sup> The Directive provides each EU-member country the option to obligate commercial users to pay part or all of the costs associated with the historical waste even if the equipment is replaced. In this situation, the obligation would remain (partly or wholly) with the commercial user until the user disposes of the equipment.

accounting for the initial recognition and measurement of the liability and asset retirement cost should be consistent with paragraphs 3–12 in Statement 143. That is, the commercial user should recognize the fair value of the liability for the obligation when the legislation is enacted by its EU-member country or when the equipment is acquired if the legislation is already enacted. The fair value of a liability for an asset retirement obligation is the amount at which that liability could be settled in a current transaction between willing parties. The ability or intent of the commercial user to replace the asset and transfer the obligation does not relieve the user of its present duty or responsibility to settle the obligation. The replacement of the asset may, depending upon EU-member country law, transfer the obligation to the replacement producer, and, if so, that transfer would affect the purchase price of the replacement asset.

7. Upon initial recognition of a liability, an entity shall capitalize an asset retirement cost by increasing the carrying amount of the related asset by the same amount as the liability. The accounting subsequent to the initial recognition of the asset and liability should be consistent with the guidance in paragraphs 13–15 in Statement 143.<sup>3</sup>

8. If the asset is subsequently replaced, with the obligation being transferred to the producer of the replacement equipment, the commercial user should determine the portion of the total amount paid to the producer that relates to the replacement equipment (the new asset) and the portion that relates to the transfer of the asset retirement obligation.<sup>4</sup> That determination should be based on the amount at which the asset without the assumption of the retirement obligation could be exchanged in a current

---

<sup>3</sup> Paragraph 13 of Statement 143 requires an entity in periods subsequent to initial measurement to recognize period-to-period changes in the liability for an asset retirement obligation resulting from (a) the passage of time and (b) revisions to either or both the timing and the amount of the original estimate of undiscounted cash flows. An entity shall measure and incorporate changes due to the passage of time into the carrying amount of the liability before measuring changes resulting from a revision to either the timing or the amount of estimated cash flows. Paragraphs 14 and 15 of Statement 143 discuss the measurement of changes resulting from the passage of time and revisions to cash flow estimates.

<sup>4</sup> The price paid by the commercial user would not include any costs associated with the transfer of the obligation in situations where the law in the EU-member country obligates commercial users to pay all of the costs associated with the historical waste even if the equipment is replaced. In these situations, the commercial user would not derecognize the liability from its balance sheet upon replacement but rather when the obligation is ultimately settled.

transaction between knowledgeable, unrelated willing parties.<sup>5</sup> That amount should be used in determining the new asset's cost basis. The commercial user would derecognize the liability from its balance sheet, and the amount that relates to the transfer of the obligation should be used to determine the gain or loss as a result of the transfer. The producer of the replacement equipment would recognize a liability for the fair value of the obligation upon the transfer of the obligation from the commercial user.

### **Historical Waste Held by Private Households**

9. The Directive provides that the financing of historical waste held by private households is to be borne collectively by producers that are selling in the market during each measurement period (to be defined by each EU-member country). The volume of equipment that qualifies as historical waste that those producers have sold in the market prior to the measurement period is not considered. Producers will be required to contribute proportionately based on their participation in the market (for example, in proportion to their respective shares of the market by type of equipment). However, the exact method to be used to compute the respective proportions will be determined by each EU-member country.

10. If, for example, the method is based on each company's respective share of the market by type of equipment during the measurement period, a liability for the obligation, with an offsetting amount to expense, shall be recognized over the measurement period for the appropriate portion of the cost based on the entity's estimated market share. The liability should be adjusted as actual market share information is received. The obligation is triggered by participation in the market during the measurement period and therefore should not be recognized prior to the beginning of that period.

---

<sup>5</sup> The FASB staff expects information to be available from transactions between commercial users and producers that only involve assets that qualify as new waste such that the transaction would not involve the assumption of the asset retirement obligation by the producer.

11. The recognition required by paragraph 10 of this FSP is consistent with paragraph 36 of FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states, in part:

A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened.

12. The entity has a present duty or responsibility since it is required by current laws, regulations, or contracts to finance waste equipment if it participates in (puts equipment on) the market during the measurement period. Since each company's proportion of costs is based on its participation in the market during the measurement period, the company can avoid the future payment by changing its operations (for example, exiting certain product lines or operating in a different marketplace). However, the entity cannot avoid the future payment once it has participated in the market during the measurement period. Therefore, the obligating event occurs when the company participates in the market during the measurement period.

**Effective Date**

13. The guidance in this FSP shall be applied in the first reporting period ending after [the date the FSP is finalized]. Earlier application is encouraged.

## **Examples**

### **Commercial User**

An entity (a commercial user) is currently using electronic equipment which must be disposed of in accordance with the requirements of the Directive. The EU-member country has not yet enacted the legislation. The entity has the ability either to replace the equipment or to dispose of the equipment without replacing it. In the EU-member country in which the entity operates, the producer of the replacement equipment will be wholly responsible for disposal costs if and when the equipment is replaced.

Upon the enactment of the legislation, the entity should recognize a liability for the fair value of the asset retirement obligation. The waste management obligation remains with the commercial user until the historical waste equipment is replaced or is disposed of by the commercial user itself. Assuming the equipment is replaced, the entity would determine the portion of the purchase price that relates to the cost of the replacement asset and the portion that relates to the assumption of the obligation by the producer. The entity would recognize a gain or loss based on the difference between the carrying amount of the liability at the date of the sale and the portion of the sales price that relates to the obligation. The producer would recognize a liability for the fair value of the obligation upon transfer of the obligation from the commercial user. Assuming the equipment is disposed of by the entity rather than replaced, the entity would recognize a gain or loss based on the difference between the carrying amount of the liability at the date of the disposal and the actual cost of disposal.

### **Private Household**

An entity is a producer of electronic equipment that is covered by the Directive. The entity has produced and sold this type of electronic equipment for several years. In the EU-member country in which the entity operates, the Directive becomes effective in 2005 and requires producers to be responsible for costs associated with the disposal of

electronic equipment from private households based on its participation in the market, measured as market share, during the measurement period. The EU-member country has defined the measurement period as calendar year 2005. The entity achieves a 4 percent market share in 2004 and expects to achieve a 5 percent market share in 2005.

The entity should not recognize a liability in 2004 for the costs associated with the disposal of historical waste held by private households. The obligation is triggered by participation in the market during 2005 (the measurement period). A liability for the obligation, with an offsetting amount to expense, should be recognized over the year for the appropriate portion of the annual cost based on the estimated percent market share. The liability should be adjusted as actual market share information is received. The entity would recognize a liability relating to costs incurred during 2006 as the entity participates in the market in 2006.