**Proposed FSP—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**
**(Comment deadline: August 13, 2003)**

Q—Existing legislation requires the owner of a building to remove and dispose of asbestos in a certain manner when a building is either renovated or demolished. Regardless of whether the owner has any plans to demolish or renovate the building, does the existence of that legislation create an asset retirement obligation (ARO) that should be recognized as a liability in accordance with FASB Statement No. 143, *Accounting for Asset Retirement Obligations*?

Background

The FASB staff understands that the National Emissions Standards for Hazardous Air Pollutants (NESHAP) was enacted in order to minimize the release of asbestos fibers that may become airborne when regulated asbestos containing material (RACM) is disturbed. That legislation outlines specific procedures for the removal and disposal of RACM. It applies to both the demolition and renovation of a building or a component of a building that contains RACM. Renovation, as that term is used in the legislation, includes the removal of RACM from a building or a component of a building.

The FASB staff understands that RACM includes both friable asbestos-containing material (ACM) and non-friable ACM that has either become friable ACM or has a high likelihood of becoming friable ACM. ACM is considered friable when it can be crumbled or pulverized by the use of hand pressure. Acoustic tiles and duct wrap are common examples of friable ACM. Conversely, ACM is considered non-friable when it cannot be crumbled or pulverized by the use of hand pressure. Non-friable ACM is commonly mixed with a binding such as cement or vinyl. Vinyl floor tiles and stucco are common examples of non-friable ACM.

A—Yes, Statement 143 requires an entity to recognize the fair value of a liability for an ARO in the period in which it is incurred if a reasonable estimate of the fair value of the obligation can be made. Certain legislation creates a legal obligation for the owner of a building to remove and dispose of asbestos. For presently enacted legislation, that legal obligation constitutes an ARO that should be recognized as a liability in accordance with Statement 143. Paragraph 35 of FASB Concepts Statement No. 6, *Elements of Financial Statements*, outlines the three essential characteristics of a liability: (1) it embodies a duty or responsibility, (2) there is little or no discretion to avoid a future transfer or use of assets to satisfy the obligation, and (3) the obligating event has already occurred. The FASB staff believes that the legal obligation to remove and dispose of RACM in a certain manner when a building or a component of a building is either demolished or renovated satisfies all three of the characteristics, and thus constitutes a liability.

That conclusion is supported by an analysis of possible alternatives for buildings that contain RACM. Economically, the owner of a building that contains RACM has only four options available: (a) sell the building subject to the obligation to remove and dispose of the RACM (in which case the owner must accept a lower price from a buyer in return for the buyer to assume the obligation); (b) sell the building at a higher price, but promise to reimburse the buyer for the costs to remove and dispose of the RACM; (c) remove and dispose of the RACM before sale of the building; or (d) maintain the building until the end of its useful life and then remove and dispose of the RACM. In each case, the existence of the liability directly impacts on the owner's exit strategy for the asset. Only the timing and amount of the liability are in question.

Although it is conceivable that the owner of a building may be able to maintain any RACM for an extended period of time through active maintenance and other techniques, such as encapsulation, events outside of the control of the owner (for example, fires, boiler explosions, water damage, natural disaster) could require that RACM be removed from a building at any time.

The FASB staff acknowledges that in many cases there may not be quoted market prices or prices for similar assets and liabilities from which to determine the fair value of the liability. In such cases, a present value technique may be the best available technique to measure the fair value of an ARO. The determination of the liability under an expected cash flow approach should assign probabilities to each of the expected outcomes, including those that are considered to be less likely by other marketplace participants. In some cases, when a present value technique is being used to measure the fair value of the liability, current maintenance activities of a company and its intent with respect to future maintenance may impact the timing of expected cash flows such that the guidance in paragraphs A14 and A16 of Statement 143 may be applicable.