GASB Exposure Draft

December 7, 2015

Comments Due: March 31, 2016

Proposed Statement

of the Governmental Accounting Standards Board

Certain Asset Retirement Obligations

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 3-27E

Governmental Accounting Standards Board

CERTAIN ASSET RETIREMENT OBLIGATIONS

WRITTEN COMMENTS

Deadline for submitting written comments: March 31, 2016

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 3-27E, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public hearing. The Board has not scheduled a public hearing on the issues addressed in this Exposure Draft.

Public files. Written comments will become part of the Board's public file and are posted on the GASB's website.

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Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and to educate stakeholders—including issuers, auditors, and users of those financial reports—on how to most effectively understand and implement those standards.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would establish standards for certain asset retirement obligations.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. In deciding on changes in accounting and financial reporting standards, the GASB also takes into consideration the costs of preparing and reporting the information and its benefits to users of financial statements. When the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

This proposed Statement addresses accounting and financial reporting for certain asset retirement obligations. An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset. Existing laws and regulations require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Under this proposed Statement, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets would be required to recognize a liability based on the guidance proposed in this Statement.

This proposed Statement would establish criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This proposed Statement would require that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred would be based on the existence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Internal obligating events include the occurrence of contamination, placing into use a tangible capital asset that is required to be retired, abandoning a tangible capital asset before use begins, or acquiring a tangible capital asset that has an existing asset retirement obligation.

This proposed Statement would require the measurement of the liability for an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate would include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost, or the most likely amount if probability weighting is not feasible. This proposed Statement would require that a deferred outflow of resources associated with an asset retirement obligation be measured at the amount of the corresponding liability upon initial measurement.

This proposed Statement would require the current value of the liability for a government's asset retirement obligations to be remeasured for the effects of inflation or deflation at least annually. In addition, it would require a government to evaluate all relevant factors at least annually to determine whether the effect of any of the factors indicates a significant change in the estimated asset retirement outlays. A government would remeasure the liability for an asset retirement obligation only when the result of the evaluation indicates there is a significant change in the estimated outlays. The deferred outflow of resources would be reduced and recognized as an outflow of resources (for example, as an expense) in a systematic and rational manner (such as the straight-line method) over the estimated useful life of the tangible capital asset.

In some cases, governments are legally required to provide funding or other financial assurance for their performance of asset retirement activities. This proposed Statement would require disclosure of how those funding and assurance requirements are being met by a government, as well as the amount of any assets restricted for payment of the liability for the government's asset retirement obligations, if not separately displayed in the financial statements.

This proposed Statement also would require disclosures of descriptive information about the nature and timing of a government's asset retirement obligations, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If a liability for an asset retirement obligation (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government would be required to disclose that fact and the reasons therefor.

Effective Date

The requirements of this proposed Statement would be effective for reporting periods beginning after December 15, 2017. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

This proposed Statement would enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations, including obligations that may not have previously been reported. This proposed Statement also would enhance the decision usefulness of the information provided to financial statement users by requiring disclosures related to certain asset retirement obligations.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

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INTRODUCTION

1. Existing laws and regulations require state and local governments to take specific actions to retire certain tangible capital assets, such as the decommissioning of nuclear reactors, removal and disposal of wind turbines in wind farms, and dismantling and removal of sewage treatment plants. Other obligations to retire certain tangible capital assets arise from contracts or court judgments. Accounting and financial reporting standards exist for costs of the closure and post-closure care of municipal solid waste landfills, but those standards do not apply to other types of tangible capital assets.

2. The objective of this Statement is to provide financial statement users with information about certain **asset retirement obligations**[1] that are not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes standards of accounting and financial reporting for certain asset retirement obligations. The requirements of this Statement apply to financial statements of all state and local governments.

4. For purposes of applying this Statement, an asset retirement obligation is a legally enforceable liability associated with the **retirement of a tangible capital asset** (that is, the capital asset is permanently removed from service). The retirement of a tangible capital asset encompasses its sale, abandonment, recycling, or disposal in some other manner; however, it does not encompass the temporary idling of a tangible capital asset.

5. Asset retirement obligations result from the normal operations of tangible capital assets, whether acquired or constructed, and include legally enforceable liabilities associated with all of the following activities:

a. Retirement of tangible capital assets
b. Disposal of a replaced part that is a component of a tangible capital asset

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[1]Terms defined in the glossary are printed in **boldface type** the first time they are used in this Statement.

c. Environmental remediation associated with the retirement of tangible capital assets that results from the normal operations of those capital assets.

This Statement also applies to legally enforceable liabilities of a lessor in connection with the retirement of its leased property if those liabilities meet the definition of an asset retirement obligation.

6. This Statement does not apply to:

a. Obligations that arise solely from a plan to sell or otherwise dispose of a tangible capital asset
b. Obligations associated with the preparation of a tangible capital asset for an alternative use
c. Obligations for asbestos removal that result from the other-than-normal operation of a tangible capital asset
d. Obligations associated with maintenance, rather than retirement, of a tangible capital asset
e. The cost of a replacement part that is a component of a tangible capital asset
f. Landfill closure and postclosure care obligations, including those not covered by Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*
g. Conditional obligations to perform asset retirement activities.

7. This Statement amends NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraphs 42 and 43; Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* paragraph 4; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements,* paragraphs 9, 11, 14, 15, and footnote 7; NCGA Interpretation 6, *Notes to the Financial Statements Disclosure,* paragraph 5; and *Implementation Guide No. 2015-1,* Question 3.51.1.

Recognition

Recognition of a Liability

8. A government should recognize a liability for an asset retirement obligation when the liability is incurred and reasonably estimable. Incurrence of a liability is manifested by the occurrence of both an external obligating event and an internal obligating event resulting from normal operations. An obligating event refers to an event whose occurrence determines the timing for recognition of a liability for an asset retirement obligation.

9. An external obligating event is one of the following:

a. Approval of federal, state, or local laws or regulations
b. Creation of a legally binding contract
c. Issuance of a court judgment that imposes a legally enforceable liability on a government to retire a tangible capital asset.

10. An internal obligating event is one of the following:

a. For contamination-related asset retirement obligations, the event is the occurrence of **contamination.** For purposes of this Statement, contamination only refers to contamination that (1) is a result of the normal operation of a tangible capital asset, such as nuclear contamination of a nuclear reactor vessel as a result of the normal operation of a nuclear power plant and (2) is not in the scope of Statement 49.
b. For non-contamination-related asset retirement obligations:
   (1) If the pattern of incurrence of the liability is based on the use of the tangible capital asset, the event is putting that capital asset into operation and consuming a portion of the usable capacity by the normal operations of that capital asset. For example, the internal obligating event to recognize a liability for the retirement of a coal strip mine is the excavation of the coal strip mine and using a portion of the capacity of the coal strip mine.
   (2) If the pattern of incurrence of the liability is not based on the use of the tangible capital asset, the event is placing that capital asset into operation. For example, the internal obligating event to recognize a liability for the retirement of a wind turbine is placing the wind turbine into operation.
   (3) If the tangible capital asset is permanently abandoned before it is ready for use, the event is the permanent abandonment itself. For example, the internal obligating event to recognize a liability for the retirement of a sewage treatment plant that is permanently abandoned during construction is the abandonment of the construction of the plant.
c. For acquired asset retirement obligations, the event is the acquisition of the tangible capital asset. For example, the internal obligating event to recognize a liability for an acquired power plant with an existing asset retirement obligation is the acquisition of the power plant.

11. The completion of an asset retirement plan is not an internal obligating event.

Recognition of a Deferred Outflow of Resources

12. When a liability is recognized for an asset retirement obligation, a government also should recognize a corresponding deferred outflow of resources.

13. If a tangible capital asset is permanently abandoned before it is ready for use, a government should immediately report an outflow of resources (for example, an expense) rather than a deferred outflow of resources.

Initial Measurement

Initial Measurement of a Liability

14. A government should determine the types of activities to be included in the measurement of a liability for an asset retirement obligation based on relevant legal requirements that create the asset retirement obligation; that is, the relevant laws, regulations, contracts, or court judgments. The legal requirements resulting from laws and

regulations should be based on applicable federal, state, or local laws or regulations that have been approved as of the financial reporting date, regardless of their effective dates.

15. The measurement of the liability for an asset retirement obligation should be based on the best estimate of the **current value** of outlays expected to be incurred. Current value is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current reporting period.

16. The best estimate should be determined using all available evidence. This approach includes probability weighting of potential outcomes when sufficient evidence is available or can be obtained at reasonable cost. When probability weighting cannot be accomplished at reasonable cost, the most likely amount in the range of potential outcomes should be used. The determination of that amount should take into consideration all other available evidence that can be obtained at reasonable cost, including the potential for higher or lower outcomes.

Initial Measurement of a Deferred Outflow of Resources

17. A government should initially measure a deferred outflow of resources associated with an asset retirement obligation at the amount of the corresponding liability upon initial measurement.

Subsequent Measurement and Recognition

Subsequent Measurement and Recognition of a Liability

18. Subsequent to initial measurement, a government should at least annually remeasure the current value of its asset retirement liability for the effects of inflation or deflation.

19. A government also should at least annually evaluate all relevant factors to determine whether the effect of any of those factors indicates a significant increase or decrease in estimated outlays associated with the asset retirement liability. A government should remeasure the liability for an asset retirement obligation only when the results of the evaluation indicate there is a significant change in the estimated outlays.

Factors that may indicate a significant change in the estimated outlays include, but are not limited to:

a. Price increases or decreases due to factors other than inflation or deflation for specific components of the estimated outlays
b. Changes in technology
c. Changes in legal or regulatory requirements resulting from changes in laws, regulations, contracts, or court judgments
d. Changes in the type of equipment, facilities, and services that will be used to meet the obligations to retire the tangible capital asset.

20. Changes in the estimated outlays should be recognized as an increase or decrease in the carrying amount of the liability for the asset retirement obligation in one of the following ways:

a. For a liability that increases or decreases before the time of retirement of the tangible capital asset, a government also should adjust the corresponding deferred outflow of resources.
b. For a liability that increases or decreases at or after retirement of the tangible capital asset, a government should recognize an outflow of resources or an inflow of resources in the reporting period in which the increase or decrease occurs.

Subsequent Measurement and Recognition of a Deferred Outflow of Resources

21. After initial measurement of a deferred outflow of resources for an asset retirement obligation, a government should recognize a reduction of the deferred outflow of resources as an outflow of resources (for example, expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

Recognition and Measurement in Financial Statements Prepared Using the Current Financial Resources Measurement Focus

22. In financial statements prepared using the current financial resources measurement focus, liabilities should be recognized for goods and services used for asset retirement activities upon receipt of those goods and services, to the extent that the amounts are normally expected to be liquidated with expendable available financial resources. Those amounts are normally expected to be liquidated with expendable available financial resources to the extent that they are due and payable. The accumulation of resources in a governmental fund for eventual payment of unmatured general long-term indebtedness, including asset retirement liabilities, does not constitute an outflow of current financial resources and should not result in the recognition of an additional governmental fund liability or expenditure. In the statement of revenues, expenditures, and changes in fund balances, any facilities and equipment acquisitions associated with asset retirement activities should be reported as expenditures.

Effects of Funding and Assurance Provisions

23. If a government is subject to legal, regulatory, or contractual requirements to provide funding and assurance for its asset retirement obligations by setting aside assets restricted[2] for payment of the asset retirement obligations, the government should disclose that fact in accordance with the disclosure requirements in paragraphs 25d and 25e.

[2]The term *restricted* is discussed in the context of restricted net position in paragraph 34 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended. Restricted refers to constraints that "are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation." (Footnote reference omitted.)

24. Providing funding and assurance that a government will be able to satisfy its asset retirement obligations does not satisfy or extinguish the related liabilities, nor should the assets restricted for payment of asset retirement obligations be used to offset the related liabilities. Any costs associated with complying with funding and assurance provisions should be accounted for separately from the asset retirement obligations.

Notes to Financial Statements

25. A government should disclose the following information about its asset retirement obligations:

a. A general description of the asset retirement obligations and associated tangible capital assets, as well as the source of the obligations (whether they are a result of federal, state, or local laws or regulations, contracts, or court judgments)
b. The methods and assumptions used to measure the liabilities
c. The estimated remaining useful life of the associated tangible capital assets
d. How any funding and assurance provisions associated with asset retirement obligations, if legally required, are being met; for example, disclosure of surety bonds, insurance policies, letters of credit, guarantees by other entities, or trusts used for funding and assurance
e. The amount of assets restricted for payment of the liabilities, if not separately displayed in the financial statements.

26. If a liability for an asset retirement obligation, or portions thereof, has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government should disclose that fact and the reasons therefor.

EFFECTIVE DATE AND TRANSITION

27. The requirements of this Statement are effective for reporting periods beginning after December 15, 2017. Earlier application is encouraged.

28. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

The provisions of this Statement need not be applied to immaterial items.

GLOSSARY

29. This paragraph contains definitions of certain terms *as they are used in this Statement;* the terms may have different meanings in other contexts.

Asset retirement obligation
A legally enforceable liability associated with the retirement of a tangible capital asset.

Contamination
An event or condition normally involving a substance that is deposited in, on, or around a tangible capital asset in a form or concentration that may harm people, equipment, or the environment due to the substance's radiological, chemical, biological, reactive, explosive, or mutagenic nature.

Current value
The amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current reporting period.

Retirement of a tangible capital asset
The permanent removal of a tangible capital asset from service.

Appendix A

BACKGROUND

A1. Some governments, including public power utilities, have legal obligations to retire certain tangible capital assets at the end of their estimated useful lives. Statement 18 provides guidance for the retirement of municipal solid waste landfills but does not address other types of asset retirement obligations. Statement 49 requires governments to report liabilities for pollution-related asset retirement obligations at the time of the retirement, if not previously reported, but does not address reporting during periods leading up to the retirement. There is no specific authoritative guidance regarding governments' asset retirement obligations associated with other types of tangible capital assets.

A2. When the GASB sought public comment on GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* respondents requested further accounting and reporting guidance for asset retirement obligations. Those stakeholders indicated that without government-specific guidance, accounting and financial reporting for certain asset retirement obligations was inconsistent. In practice, some governments applied Financial Accounting Standards Board (FASB) Statement No. 143, *Accounting for Asset Retirement Obligations* (codified into *FASB Accounting Standards Codification*® Subtopic 410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations), while others applied GASB Statement 18 by analogy or used some other industry practice.

A3. The Governmental Accounting Standards Advisory Council (GASAC) considered an Asset Retirement Obligations project during its annual discussions of technical plan priorities in 2011–2013, ranking that potential project as high as sixth among all potential topics and pre-agenda research activities in 2013. The GASAC also commented favorably on the possibility of performing pre-agenda research at its October 2013 meeting.

A4. Pre-agenda research on asset retirement obligations was initiated by the Board in December 2013. The research included a review of the financial reports of governments, relevant laws and regulations, and existing accounting standards, including those of other accounting standards setters. Financial statement users were surveyed about their perceptions of the usefulness and importance of information regarding asset retirement obligations. Preparers and auditors of governmental financial statements were interviewed to assess current practice, such as the diversity in the nonauthoritative guidance that governments apply to account for and report their asset retirement obligations.

A5. Based on the research results, an educational memorandum was presented to the Board at the July 2014 teleconference, and a project prospectus was discussed with the Board in August 2014. To address the perceived need for guidance in this area, the Board added a project to its current technical agenda in August 2014. Deliberations began in November 2014.

A6. The Board assembled a task force for this project composed of members broadly representative of the GASB's stakeholders, including preparers, auditors, and users. The task force members provided feedback on issues discussed by the Board and on drafts of this Statement. In addition, feedback on key issues also was provided by members of the GASAC at several of its meetings.

Appendix B

BASIS FOR CONCLUSIONS AND ALTERNATIVE VIEW

Basis for Conclusions

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

General Approach for the Project

B2. Through the pre-agenda research activities, the Board became aware that there is diversity in practice with regard to the accounting and financial reporting of certain asset retirement obligations, as a result of governmental preparers and their auditors applying analogies to GASB Statements 18 and 49 and nonauthoritative guidance. That nonauthoritative guidance includes FASB Codification Subtopic 410-20. The Board based the guidance in this Statement on the conceptual framework and relevant accounting standards, incorporating specific guidance to address any unique aspects of governmental asset retirement obligations and, when needed, developing additional guidance to address specific issues identified in the outreach activities conducted during the development of this Statement. The Board believes this approach to developing the guidance not only is conceptually sound but also best provides for cost efficiency and practicality.

B3. This Statement is based on general principles (for example, recognition, measurement, and disclosure), and also provides specific requirements in some areas to operationalize the general principles when needed. The Board believes that this approach is appropriate because:

a. Asset retirement obligations exist for a wide variety of tangible capital assets and, therefore, the guidance needs to have broad applicability to be able to address various types of asset retirement activities and to respond to future changes in technology.
b. The legally enforceable liabilities to retire tangible capital assets are created by various sources, including federal, state, and local laws and regulations, contracts, and court judgments. Therefore, the guidance needs to be flexible enough to accommodate a variety of legal requirements and to allow future changes in the legal and regulatory environment to be incorporated into the general principles.
c. When guidance is needed to address unique issues, more specific requirements should be incorporated to operationalize the general principles.

The Board believes this approach not only has broad applicability and flexibility to accommodate all types of asset retirement obligations but also can accommodate future changes in factors that may affect asset retirement obligations.

Scope and Applicability

Scope of this Statement

B4. Pre-agenda research indicated that many governments have potential asset retirement obligations but do not report them in their financial statements due to the lack of specific authoritative guidance. In addition to governmental utilities that own or operate power plants, general-purpose governments and governments that operate in specialized industries, such as healthcare organizations and institutions of higher education, also may have asset retirement obligations. Examples of such asset retirement obligations include those associated with the retirement of sewage treatment plants and those associated with the retirement of x-ray machines, magnetic resonance imaging machines, or similar equipment that needs to be disposed of in a specific way due to the radioactive material or waste generated by equipment regulated by federal, state, or local laws and regulations. Other examples include legal obligations associated with the retirement of research facilities owned by public universities, such as the decommissioning liabilities of nuclear research reactors. The Board believes financial information about asset retirement obligations is essential to a user's understanding of governmental financial statements, regardless of the types of tangible capital assets and types of governments that asset retirement obligations are associated with.

B5. In framing the scope of this Statement, the Board considered guidance for similar liabilities provided by other standards setters, including the FASB, the International Public Sector Accounting Standards Board (IPSASB), the International Accounting Standards Board (IASB), and the Federal Accounting Standards Advisory Board (FASAB). The Board also considered scope-related issues identified during the pre-agenda research and previously issued GASB standards. The resultant scope of this Statement incorporates those considerations and covers a broad range of issues. Because the objective of this Statement does not include a reexamination of GASB Statement 18, municipal solid waste landfills covered in the scope of GASB Statement 18 are outside the scope of this Statement.

B6. The Board also considered landfills that are not covered by Statement 18. Statement 18 limits its scope to only one type of landfill—municipal solid waste landfills, a term that is defined by the U.S. Environmental Protection Agency (EPA) and similar state and local laws and regulations (see paragraph 30 of GASB Statement 18). Therefore, accounting and financial reporting for other types of landfills that do not meet the definition of *municipal solid waste landfill* are not covered by Statement 18. The Board decided not to include those other landfills in the scope of this Statement because landfills generally are similar in nature. Many governments currently analogize to Statement 18 to account for and report other landfills, such as hazardous waste landfills, regardless of whether those landfills meet the definition of a *municipal solid waste landfill*. Given that the nature of all landfills is somewhat similar, the Board believes it would be more effective and practical to examine asset retirement obligations for all landfills when Statement 18 is reexamined. The Board also believes that excluding landfills not addressed in Statement 18 from the scope of this Statement would avoid potentially prejudging the outcome of a Statement 18 reexamination.

B7. Additionally, the Board considered the relationship between the scope of Statement 49 and the scope of this Statement. Paragraph 4b of Statement 49 excludes from its scope "other future pollution remediation activities that are required upon retirement of an asset (asset retirement obligations, such as nuclear power plant decommissioning) during the periods preceding the retirement." Paragraph 44 in the Basis for Conclusions of Statement 49 notes that those obligations "represent a different set of accounting issues than present obligations to address existing pollution." On the other hand, paragraph 4b also states that Statement 49 applies to other future pollution remediation activities that occur *at the time of retirement* if obligating events are met and a liability has not previously been recorded. In other words, if an asset retirement obligation is not recognized prior to the retirement of a tangible capital asset and a government is obligated to perform pollution remediation as part of asset retirement activities when that asset is retired, the government will need to apply the guidance in Statement 49 at the time of the retirement. The Board concluded that because provisions in this Statement would cover asset retirement obligations incurred during periods prior to the retirement of a tangible capital asset as well as those obligations incurred at and after the time of retirement, governments would no longer need to apply the guidance in Statement 49 to asset retirement obligations. Therefore, this Statement amends the scope provisions in paragraph 4b of Statement 49.

B8. This Statement addresses asset retirement obligations associated with tangible capital assets because the Board's research indicates that asset retirement obligations generally are not associated with intangible assets.

B9. The scope of this Statement does not include conditional obligations to perform asset retirement activities, such as conditional obligations to remove asbestos if it becomes friable. The Board notes that existing guidance on general recognition for contingent liabilities in Statement 62 would apply to obligations that meet the criteria in that Statement for the recognition of a liability.

Definition of Asset Retirement Obligations

B10. The definition of an asset retirement obligation in this Statement is based on the definition in FASB Codification Subtopic 410-20, with modification to emphasize the key element of legal enforceability embedded in a legal obligation, as discussed in GASB Concepts Statement No. 4, *Elements of Financial Statements.* FASB Codification Subtopic 410-20 defines an asset retirement obligation as "an obligation associated with the retirement of a tangible long-lived asset." Paragraph 17 of Concepts Statement 4 defines liabilities as "present obligations to sacrifice resources that the government has little or no discretion to avoid." Paragraph 18 of that Concepts Statement further states "the reason that many liabilities cannot be avoided is that they are legally enforceable, meaning that a court could compel the government to fulfill the obligation. Generally, legally enforceable liabilities arise from legislation of other levels of government or contractual relationships, which may be written or oral." The Board believes it is necessary to emphasize the key concept of legal enforceability of a legal obligation in the definition of an asset retirement obligation because (a) asset retirement obligations generally are obligations that arise from legal requirements resulting from laws, regulations, contracts, or court judgments, and (b) the scope of this Statement is limited to the legal obligations that governments would be required to recognize as liabilities.

B11. In limiting the scope of this Statement to legal obligations, the Board notes that existing guidance on general recognition for contingent liabilities in Statement 62 would apply to situations involving a certain type of constructive obligation, in which the constructive obligation meets the criteria in Statement 62 for the accrual of an estimated loss and rises to the level of recognition of a liability. Therefore, the Board believes constructive obligations are sufficiently addressed under existing guidance for recognition of contingent liabilities in Statement 62. Furthermore, the Board believes that relying on the existing guidance to address contingent liabilities would avoid the unintended consequences of including all types of obligations within the scope of this Statement. Based on these considerations, the Board concluded that the term *legally enforceable liability,* as established in Concepts Statement 4, should be used when defining an asset retirement obligation.

B12. In addition, the Board considered a scenario in which a government may need to determine whether an obligation under the doctrine of *promissory estoppel* [3] becomes a legal obligation and should be recognized as a liability. However, the Board notes that the recognition criteria in this Statement are based on the definition of a liability in Concepts Statement 4 and believes that definition adequately addresses the various ways in which liabilities can arise. The Board believes that government should consider the definition of a liability in Concepts Statement 4 to determine whether a legal obligation would rise to the level of recognition of a liability. Therefore, the Board concluded it is not within the scope of this Statement to specifically identify when an obligation under the doctrine of promissory estoppel becomes a legal obligation.

Recognition

Reporting a Liability

B13. This Statement requires governments to recognize a liability for an asset retirement obligation. As previously noted, liabilities are defined in Concepts Statement 4 as "present obligations to sacrifice resources that the government has little or no discretion to avoid." The Board believes that an asset retirement obligation meets all three characteristics of a liability in that definition. First, an asset retirement obligation is created by existing legal requirements from laws, regulations, contracts, or court judgments. The existence of legal requirements indicates the event that created the liability has taken place and created a present obligation. Second, a government required by laws or regulations to incur costs to perform asset retirement activities also would be required to pay for those costs. Those costs may vary with the type of tangible capital asset and the provisions in the laws or regulations, contracts, or court judgments but, nonetheless, they all require the government to sacrifice

[3] *Black's Law Dictionary,* seventh edition, defines *promissory estoppel* as "The principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and if the promisee did actually rely on the promise to his or her detriment."

resources for payment of those costs. Third, because asset retirement obligations are defined as legally enforceable liabilities, other parties could compel the government to fulfill the obligation, leaving the government with little or no discretion to avoid the obligation.

Reporting a Deferred Outflow of Resources

B14. This Statement requires a government to recognize a corresponding deferred outflow of resources when a liability is recognized for an asset retirement obligation. The Board does not believe asset retirement costs meet the definition of assets in Concepts Statement 4: "resources with present service capacity that the government presently controls." The Board believes that because asset retirement costs are resources necessary to permanently remove a tangible capital asset from service, those resources generally do not provide present service capacity to the government. Therefore, the Board concluded that asset retirement costs should not be capitalized as part of the tangible capital asset.

B15. Using the hierarchy developed by the Board in deliberating the provisions of Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the Board next considered the deferred outflows of resources element. A deferred outflow of resources is defined in Concepts Statement 4 as "a consumption of net assets by the government that is applicable to a future reporting period." The Board notes that when a government recognizes a liability for an asset retirement obligation in the current reporting period, the outflow of resources does not necessarily relate to the same reporting period. Although those costs do not enhance the service capacity of the related tangible capital asset, the costs are applicable to future periods when that capital asset provides services. Therefore, the Board believes asset retirement costs meet the definition of a deferred outflow of resources and should be recognized as such.

B16. The Board notes that, in some cases, a tangible capital asset may be permanently abandoned before it is ready for use. However, there may be existing legal requirements (from laws, regulations, contracts, or court judgments that are in place) that require the government to perform asset retirement activities for the partially constructed asset after permanent abandonment. In those cases, a government would recognize an outflow of resources instead of a deferred outflow of resources for the costs to retire the tangible capital asset because those costs are not applicable to future periods. For example, a county government begins construction of a sewage treatment plant with funding from a federal grant and expects to obtain additional funding to complete the project with the proceeds of a long-term bond issuance. While the plant is under construction, the federal funding is exhausted and the long-term bonds are not issued. Subsequently, the county decides to permanently abandon the project as well as the plant that had been partially built. Because a state law requires the county to remove and dispose of the plant after abandonment, the county would recognize a liability for its asset retirement obligation in the period that the partially built plant is permanently abandoned. In addition, because the asset retirement activities—removal and disposal of the partially built plant—need to commence in the current period rather than a future period, the outflow of resources for the retirement of the tangible capital asset would not be applicable to future periods. In this case, the county would immediately recognize the outflow of resources for the removal and disposal of the partially constructed plant.

Recognition of a Liability

Pattern of recognition of a liability

B17. This Statement requires governments to recognize a liability for an asset retirement obligation when the liability is incurred and reasonably estimable. The Board believes this approach is appropriate as a general principle because it is consistent with guidance in other statements for liabilities with similar patterns of recognition. For example, Statement 49 requires a pollution remediation obligation to be recognized when an obligating event occurs and when a liability can be reasonably estimated. Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires recognition of a liability for incurred but not reported claims to be accrued if it is probable that a loss has been incurred and the amount can be reasonably estimated.

B18. The Board also considered two alternatives for the pattern of recognition of an asset retirement liability. One alternative, similar to the approach used in Statement 18, would have been to apply the pattern of recognition of a liability based on the use of the asset. Statement 18 requires governments with municipal solid waste landfills to recognize and measure the accrued liability for closure and postclosure care using a formula that assigns that liability to periods based on cumulative landfill use. However, the Board believes there would have been challenges in applying this approach to other tangible capital assets because it may be difficult to estimate the level of use for all types of tangible capital assets and to base the recognition of a liability on that level of use. The other alternative considered by the Board would have been to apply the pattern of recognition of a liability based on the passage of time. However, the Board does not believe such an approach would be adaptable to potential changes that may occur in the liability for an asset retirement obligation from year to year. Those potential changes may be caused by changes in technology, changes in laws and regulations, or changes in other relevant factors that affect the asset retirement activities. Therefore, the Board concluded that those alternatives were not viable solutions to the pattern of recognition of the liability.

Timing of recognition of a liability—external and internal obligating events

B19. This Statement requires consideration of the occurrence of both an external obligating event and an internal obligating event to determine when a liability for an asset retirement obligation is incurred. The Board believes that the requirement to use obligating events as indicators of the timing of recognition of the liability operationalizes the general principle for recognition of a liability. The Board concluded that the occurrence of both an external obligating event and an internal obligating event is evidence that a government has a reasonable expectation that an outflow or sacrifice of resources will occur and recognition of a liability would be required if the outflows or sacrifices can be reasonably measured. This approach is similar to the approach used in Statement 49, which requires that a government determine whether one or more components of a pollution remediation obligation are recognizable as a liability once an obligating event occurs. The Board believes that, similar to Statement 49, the approach of using an external obligating event and an internal obligating event to determine the timing of recognition provides a practical solution to specify when a government should recognize a liability for an asset retirement obligation.

External Obligating Events

B20. An external obligating event is an event external to a government that establishes the legal enforceability of requirements to perform asset retirement activities. An external obligating event can include the approval of a law or regulation, creation of a contract, or issuance of a court judgment. The Board believes the existence of legal requirements from these external sources that legally bind a government to perform asset retirement activities is inherent in the definition of an asset retirement obligation. In the case of laws or regulations, their enactment normally would constitute an event external to the government that is bound by them. Therefore, the Board concluded the approval of laws or regulations indicates that an external obligating event has occurred. The Board also believes that the creation of a contract indicates that an external obligating event has occurred because contracts are legally binding documents that impose enforceable legal obligations on parties entering into the contracts. Finally, the Board believes the issuance of a court judgment against a government that requires the government to perform asset retirement activities also is an external obligating event that results in the recognition of a liability because a court judgment is legally binding.

Internal Obligating Events

B21. An internal obligating event is an action taken by a government itself (hence the term *internal*) that requires the government to apply laws, regulations, contract requirements, or court judgments to the government's specific circumstances, resulting in an obligation to perform asset retirement activities.

B22. Through pre-agenda research and outreach to project task force members, the Board notes that, due to the unique nature of contamination-induced asset retirement obligations, especially nuclear contamination-related asset retirement obligations, existing asset retirement obligations generally can be divided into two groups: (a) asset retirement obligations that are related to contamination, such as asset retirement obligations incurred by nuclear reactors, and (b) all other asset retirement obligations. Therefore, to differentiate between these two groups, the Board decided to use the classifications "contamination-related asset retirement obligations" and "non-contamination-related asset retirement obligations."

B23. Some Statements refer to the term *contamination* although it is not defined in current literature. For example, the glossary of Statement 49 defines *pollution remediation obligation* as "an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. For example . . . obligations to remove contamination such as asbestos are pollution remediation obligations." The scope of this Statement excludes obligations for contamination removal, such as asbestos, that result from other-than-normal operations. In other words, contamination covered in Statement 49 would not be included in this Statement. For that reason, paragraph 10a of this

Statement limits contamination to that which “is a result of the normal operation of the tangible capital asset” or contamination that “is not in the scope of Statement 49.”

B24. This Statement provides different recognition guidance depending on whether an asset retirement obligation arises from contamination. Consequently, the Board concluded that a definition of the term *contamination* should be provided in the Statement. The Board decided to develop a stand-alone definition of contamination for the purposes of this Statement. The definition is derived from definitions provided by federal agencies, such as the U.S. Nuclear Regulatory Commission, with modifications to make it applicable to the many types of substances that may contaminate an asset and result in a retirement obligation.

B25. Statement 18 uses a “plan” approach to determine when a liability should be initially recognized. Specifically, paragraph 4a of Statement 18 states that the estimated total current cost of municipal solid waste landfill closure and postclosure care should include “the cost of equipment expected to be installed and facilities expected to be constructed (based on the MSWLF operating plan). . . .” Paragraph 6 of Statement 18 requires that current cost be “adjusted when changes in the closure or postclosure care plan or MSWLF operating conditions increase or decrease estimated costs.” For this Statement, the Board considered including a similar plan approach in the list of internal obligating events but did not believe completion of an asset retirement plan as an internal obligating event is feasible for all types of tangible capital assets that may be subject to asset retirement obligations. Research results and outreach activities indicate that, in many cases, tangible capital assets subject to asset retirement obligations are not required to have a completed asset retirement plan before a regulatory agency grants a government the license or permit to start operations. In addition, it is fairly common for a government to complete a legally required asset retirement plan after the operation of the tangible capital asset commences. Therefore, the Board concluded that completion of an asset retirement plan should not be an internal obligating event.

Recognition of an Outflow of Resources

B26. This Statement requires a government to report a corresponding deferred outflow of resources when a liability is recognized for an asset retirement obligation, unless the tangible capital asset is permanently abandoned before it is ready for use. By requiring a government to generally report a deferred outflow of resources rather than an outflow of resources when a liability is initially recognized, this Statement reflects the Board’s view that the consumption of net assets related to asset retirement obligations generally is applicable to future reporting periods.

B27. The Board believes the pattern of recognition, which refers to the periods to which an outflow of resources (for example, expense) is applicable, should be determined by applying the concept of interperiod equity. Interperiod equity is described in Concepts Statement 4 as “the state in which current period inflows of resources equal current period costs of services. For example, the burden of the costs of services is borne by present-year taxpayers and revenue providers. This burden is not shifted to future-year taxpayers or revenue providers through an increase in the level of borrowing. . . . Interperiod equity is a relevant metric to assess accountability, rather than a goal that is expected to be met for any particular period of time" (paragraph 27). The Board believes financial reporting that is consistent with the concept of interperiod equity would help users assess whether future taxpayers (or ratepayers) will be required to assume burdens for services previously provided. For example, it would help users assess whether future taxpayers will be required to assume asset retirement obligations for the service capacity previously provided by the tangible capital asset before it is removed from service upon its retirement.

B28. The Board considered several alternatives for the pattern of subsequent recognition of the deferred outflow of resources as outflows of resources after initial measurement. One alternative would have been to recognize an outflow of resources according to the actual disbursements made to pay for the liability for an asset retirement obligation. However, the Board noted that most disbursements for goods and services used to retire a tangible capital asset are made near, at, or after the time of its retirement. Therefore, this alternative could the recognition of outflows of resources to periods to which the consumption of net assets is not applicable. Under this alternative, the full cost of using the tangible capital asset, including the cost of retirement, would not be reflected in each reporting period that the tangible capital asset is in service. The Board rejected this alternative because it does not believe this approach is consistent with the concept of interperiod equity. Another alternative considered by the Board would have been to recognize an outflow of resources using the straight-line method over the estimated useful life of the tangible capital asset. Although the Board believes the straight-line method often is consistent with the concept of interperiod equity with regard to asset retirement obligations, the Board does not believe it necessarily is the only method that would appropriately reflect interperiod equity. The Board believes there are other systematic and rational methods that are consistent with that concept.

B29. The Board believes the best alternative for the pattern of recognition of a deferred outflow of resources is in a systematic and rational manner over the estimated useful life of the tangible capital asset. The Board notes that a systematic and rational method is widely used in current literature. Other GASB Statements require a systematic and rational method for recognition of a deferred outflow of resources as an outflow of resources and for recognition of a deferred inflow of resources as an inflow of resources. For example, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses hedging of expected transactions. When a hedging derivative instrument is terminated in anticipation of a financial instrument being entered into, Statement 53 requires that any deferred outflows of resources or deferred inflows of resources recognized under hedge accounting be recognized in a systematic and rational manner over the life of the financial instrument entered into. Likewise, Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires recognition of a deferred inflow of resources as revenue in a systematic and rational manner over the term of the service concession arrangement. The Board believes recognition in a systematic and rational manner is consistent with both the concept of interperiod equity and existing literature on the pattern of recognition of deferred inflows of resources and deferred outflows of resources. In addition, systematic and rational recognition does not preclude a government from applying a straight-line method. In fact, the Board notes that, in practice, a straight-line method is commonly used when preparers apply a systematic and rational method.

B30. The Board also considered when a government should begin to reduce the deferred outflow of resources for an asset retirement obligation and recognize an outflow of resources. One alternative considered was for a government to begin recognizing an outflow of resources when the actual disbursements are made. However, the Board rejected that alternative because it believes recognition would have been delayed and that it is not consistent with the concept of interperiod equity. Instead, the Board concluded that a government should begin to recognize an outflow of resources immediately after the reporting period in which the liability for an asset retirement obligation is recognized (along with its corresponding deferred outflow of resources). Because a deferred outflow of resources generally is not recognized until a tangible capital asset is put into service, the Board believes this approach would be consistent with the concept of interperiod equity and ensure that the full cost associated with operating the tangible capital asset is recognized during the applicable reporting periods.

Exclusion of Regulatory Accounting

B31. The Board considered how this Statement should address regulatory accounting with respect to asset retirement costs and how they can be recovered by rate-regulated entities. The Board notes that, in GASB literature, guidance on rate-regulated operations is provided in paragraphs 476–500 of GASB Statement 62, which incorporates FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, and its amendments issued prior to November 30, 1989, including FASB Statement No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs*. In addition, GASB Statement 65 amends paragraph 482 of GASB Statement 62 by incorporating the concept of deferred inflows of resources in the criteria for recognition of a regulatory liability. However, the amendments do not change the essence of those criteria.

B32. The Board considered two different alternatives for addressing regulatory accounting. One alternative was to examine the guidance in paragraphs 476–500 of Statement 62 as well as paragraphs 28 and 29 of Statement 65 to determine whether the guidance needs to be amended and whether asset retirement obligations and associated costs should be recognized as regulatory assets, regulatory liabilities, deferred outflows of resources, or deferred inflows of resources. However, the Board concluded that this alternative was not appropriate because it would essentially require reexamination of the guidance on regulatory accounting in Statement 62, in addition to the amendments to that guidance. Whether certain costs are allowable for rate-making purposes determines whether they can be recovered from the rates charged to customers of governmental utilities. That determination would depend on whether those costs meet the criteria presented in the guidance for regulatory accounting. Costs related to asset retirement are part of the costs that would be considered for rate-making purposes, but they are not all that goes into the consideration of rate-making purposes. Allowable costs for rate-making purposes in regulatory accounting involve a much broader scope than asset retirement costs. Without adequate research and a comprehensive study of regulatory accounting overall, the Board believes it would be premature and inappropriate to make any changes to the existing guidance on regulatory accounting. Furthermore, the Board believes such research and study is beyond the scope of this project.

B33. The other alternative was to continue applying the current guidance in Statement 62, as amended, on regulatory accounting. This approach relies on the criteria in that Statement to determine whether asset retirement obligations and associated costs meet the criteria for a regulatory asset, regulatory liability, deferred outflow of resources, or deferred inflow of resources, and to recognize those elements when the criteria are met. The Board concluded that continuing the regulatory accounting guidance in Statement 62, as amended, is a viable approach. The Board notes that outreach to the project task force members indicated that neither the preparers nor the auditors who apply the guidance on regulatory accounting in Statement 62, as amended, have faced significant issues or difficulties in applying that guidance to asset retirement obligations. The Board believes this approach also would avoid expansion of the scope of this project to cover the much broader subject of regulatory accounting.

Measurement of a Liability

Settlement Amount

B34. To measure the liability for an asset retirement obligation, the Board considered two measurement attributes: (a) fair value, which would measure the liability as the exit price that would be paid to transfer the liability in an orderly transaction between market participants, and (b) settlement amount, which would measure the liability as the amount that the government expects to pay to settle the liability. The Board concluded that settlement amount is more appropriate for measuring the liability for an asset retirement obligation. Governments generally do not attempt to sell or transfer a liability for asset retirement obligations to other market participants in an active market. Instead, governments generally pay to settle or liquidate that liability. In fact, certain laws, regulations, and contracts may prohibit governments from transferring their liabilities for asset retirement obligations to other parties. Some may argue that choosing fair value over settlement amount would better reflect assumptions made by market participants. However, the Board does not believe that a liability for an asset retirement obligation should reflect market participants' assumptions because state and local governments generally settle many of their asset retirement obligations internally (that is, governments do not outsource many asset retirement activities).

Current Value

B35. This Statement requires the liability for an asset retirement obligation to be measured based on its current value—the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period—rather than its present value. Measurement at current value is consistent with the requirement in Statement 18 to estimate landfill closure and postclosure care costs at their "current cost."

B36. The Board believes there is substantial uncertainty related to the timing and eventual amount of the liability for an asset retirement obligation. Therefore, the Board believes that projecting uncertain cash flows to future periods and discounting those cash flows will add more subjectivity than relevance to the measurement. The Board notes from current literature for similar liabilities that present value generally is used to measure a liability when future cash flows result from specific contractual obligations that set the timing and amount of contractual payments. However, when future cash flows are nonstructured and, therefore, are uncertain in timing and amount, discounting may not be warranted. Present value also may be appropriate in situations in which many individual liabilities are measured in the aggregate such that statistical methods can approximate the timing and amount of payments, but that condition does not apply to most asset retirement obligations. On the other hand, current value is equivalent to discounting expected future costs at the inflation rate, thus achieving much of what present value intends to achieve.

B37. In addition to requiring governments to annually remeasure the current value of their asset retirement liabilities for the effects of inflation or deflation, this Statement requires governments to evaluate all relevant factors at least annually to determine whether the effect of any of those factors indicates a significant increase or decrease in estimated outlays. These factors include price increases or decreases due to factors other than inflation or deflation for specific components of asset retirement outlays, changes in technology, changes in legal or regulatory requirements, and changes in the type of equipment, facilities, and services that will be used for retirement activities. Such potential changes could complicate present value calculations by adding significant uncertainty to projected future cash flows for retirement activities.

B38. An additional issue in applying present value would be selecting an appropriate discount rate. There are many possibilities for what discount rate may be used and whether flexibility should be allowed for different governments to use different rates. Potential rates could include the risk-free rate, credit-adjusted risk-free rate, incremental borrowing rate, investment rate, inflation rate, or other rates. If the inflation rate is chosen, it would be equivalent to using current value and annually remeasuring the liability's current value measurement with the inflation rate. If another rate is chosen, additional issues regarding remeasurement of that rate could make the potential guidance on measurement more complex.

B39. The Board believes that, while both present value and current value can achieve the objectives and qualitative characteristics of financial reporting, current value is less complex and less subjective than present value for the measurement of asset retirement obligations and, therefore, may likely be less burdensome to apply. For example, the Board's research indicates that, for nuclear power plant decommissioning, the engineers developing estimates of asset retirement costs typically start with current value information. Therefore, from a cost–benefit and simplicity of measurement perspective, the Board believes current value is more appropriate than present value to measure the liability for an asset retirement obligation.

Measurement Approach

B40. This Statement requires that measurement of the liability for an asset retirement obligation be based on a measurement approach as described in paragraphs 15 and 16. This approach requires probability weighting of potential outcomes when sufficient evidence is available or can be obtained at reasonable cost. It also allows the use of the most likely amount in the range of potential outcomes when probability weighting cannot be accomplished at reasonable cost.

B41. The Board considered two conventional measurement approaches: (a) the probability-weighted approach and (b) the best-estimate approach. Because these two approaches are not defined in GASB Concepts Statements, individual Statements have applied both approaches on a broad basis. Furthermore, some Statements have tailored their use of the terms to meet the needs of that specific guidance such that application of these two measurement approaches would faithfully reflect the economics of the transactions being measured.

B42. Generally, a probability-weighted approach refers to the sum of probability-weighted amounts in a range of possible estimated amounts. For example, Statement 49 requires pollution remediation obligations to be measured using the probability-weighted approach because the Board believes the prevalence of pollution remediation and the existence of comparable data about ranges of potential outcomes provides governments with access to enough information to use such an approach. A best-estimate approach typically has been referred to as the single most-likely amount in a range of possible estimated amounts.

B43. Based on the advantages and disadvantages of a probability-weighted approach and a best-estimate approach currently used in existing standards, the Board concluded that the measurement approach for the liability for an asset retirement obligation should be based on a best-estimate approach in a broad sense. In other words, it is a best-estimate approach that requires probability weighting when relevant data can be obtained at reasonable cost. However, when probability weighting cannot be achieved at reasonable cost and with reasonable effort, the most likely amount in the range of potential outcomes can be used without probability weighting.

Subsequent Measurement and Recognition of a Liability

B44. The Board considered two general approaches to subsequent measurement of an asset retirement liability: (a) automatically remeasure the asset retirement liability annually or (b) remeasure the asset retirement liability only when annual (or more frequent) evaluation of all relevant factors indicates there are significant changes in estimated asset retirement outlays. Because the current value of the asset retirement liability implies that the effects of inflation or deflation should be incorporated in the subsequent measurement, the Board believes that a government should at least annually remeasure the current value for the effects of inflation or deflation. In addition, the Board believes that a government also should remeasure the asset retirement liability when the results of the annual (or more frequent) evaluation of the relevant factors, such as those described in paragraph 19, indicate a significant increase or decrease in estimated asset retirement outlays. Other than automatically remeasuring for inflation or deflation annually, the Board believes that a government should not be required to remeasure the asset retirement liability if the government concludes from its evaluation that none of the relevant factors, either individually or collectively, indicate a significant increase or decrease in estimated outlays.

B45. In addition, the Board concluded that governments should evaluate all relevant factors at least annually when assessing the need to remeasure the liability for an asset retirement obligation. The Board was concerned that if a government evaluates those factors less frequently than on an annual basis, potential significant changes in the estimated asset retirement outlays resulting from changes in any of those factors may not be identified and reported on a timely basis. The Board also notes that laws, regulations, or contractual provisions may require some governments to report their financial information more frequently than on an annual basis. For example, some governments may be subject to quarterly regulatory reporting. The provisions in this Statement establish a minimum requirement by calling for governments to perform an evaluation of all relevant factors at least annually.

B46. The Board decided to include the factors in paragraph 19 as examples that may indicate a change in the estimated asset retirement outlays. Those factors are consistent with existing accounting literature from the GASB and other standards-setting bodies for similar obligations. Additionally, the Board believes those examples of factors will help operationalize the general approach to remeasuring the asset retirement liability when new information indicates estimated asset retirement outlays have significantly changed.

B47. The Board believes that under the concept of interperiod equity, changes in estimated asset retirement outlays should be applicable to not only the period of change but also to future periods during which the asset's service utility is consumed, regardless of what factors have caused those changes. The Board also does not believe the expected benefits from separating the changes due to inflation or deflation from changes due to other factors would justify the potential cost and complexity of doing so. Consequently, the Board concluded that changes in an asset retirement liability due to inflation or deflation should not be separately accounted for as an outflow of resources; instead, they should be reported as a deferred outflow of resources and be recognized as an outflow of resources over the remaining estimated useful life of the tangible capital asset in the same way that governments would report changes in an asset retirement liability due to factors other than inflation or deflation.

B48. This Statement requires that, in subsequent periods, for changes in asset retirement liabilities that occur before the time of retirement of the tangible capital asset, a government also adjust the corresponding deferred outflow of resources. The Board believes this approach achieves interperiod equity by recognizing the asset retirement outlays in the applicable periods in which the service is provided.

B49. There may be circumstances in which changes in the asset retirement liability occur at or after the time of retirement of the tangible capital asset. The Board considered an example in which a governmental power plant reached the end of its estimated useful life and asset retirement activities have commenced. The deferred outflow of resources has been completely recognized as outflows of resources by the time of retirement of the power plant, but the government incurred additional asset retirement outlays that were not previously included in the asset retirement liability. In such circumstances, because the tangible capital asset is no longer in service, the additional asset retirement outlays would not be applicable to future periods of service. Consequently, the Board concluded the additional asset retirement outlays in this example do not meet the definition of a deferred outflow of resources in Concepts Statement 4. Instead, the Board believes the additional asset retirement outlays that are incurred at or after the time of retirement of the tangible capital asset are applicable to the reporting period in which those outlays are incurred and, therefore, should be recognized as outflows of resources in the resource flows statement. Similarly, for a reduction of asset retirement outlays that reduce the original estimated total asset retirement liability at or after the time of retirement, the Board believes it should be recognized as an inflow of resources in the resource flows statement.

Recognition and Measurement in Financial Statements Prepared Using the Current Financial Resources Measurement Focus

B50. For governmental funds, this Statement provides essentially the same guidance for reporting liabilities related to asset retirement activities as that provided in Statements 18 and 49. The Board notes that the governmental fund liabilities for asset retirement activities discussed in paragraph 22 are not asset retirement liabilities. Rather, they are liabilities for goods and services used in asset retirement activities.

Effects of Funding and Assurance Provisions

B51. Governmental entities may be obligated by legal requirements, such as laws, regulations, contracts, or court judgments, to provide funding and assurance that they will be able to satisfy their asset retirement obligations when the obligations become due. For example, a government may be required to set up a separate trust and place assets in that trust to fund its asset retirement liability. In the absence of legal requirements, some governments may, nevertheless, voluntarily choose to set up a trust or provide other forms of funding and financial assurance for their asset retirement liabilities.

B52. The Board decided that only those assets set aside with restrictions that meet the criteria in paragraphs 8 and 9 of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, should be subject to the provisions in paragraphs 23 and 24 of this Statement. Paragraph 34 of Statement No. 34*, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, discusses the term *restricted* and explains what constraints are considered to be restricted in the context of restricted net assets rather than assets. Paragraph 99 of that Statement explains when restricted assets should be reported by proprietary funds. The Board believes accounting and financial reporting guidance on assets set aside for an asset retirement liability should be established for and apply only to those constraints placed on asset use that have legal enforceability upon governments. This conclusion is consistent with the definition of an asset retirement obligation in this Statement as "a legally enforceable liability associated with the retirement of a tangible capital asset." The Board also considered whether assets that have been *committed*, as defined in paragraphs 10–12 of Statement 54, should be subject to the provisions in paragraphs 23 and 24 of this Statement. Based on the relative strength of the constraints that dictate how specific amounts can be spent by governments, the categories of *restricted* and *committed*, as described in paragraphs 8–12 of Statement 54, impose the highest level of constraints. However, compliance with constraints imposed by a government that *commits* amounts to specific purposes may not be considered legally enforceable. Therefore, the Board concluded that assets of the government that are committed but not restricted should not be subject to the funding and assurance provisions of this Statement.

B53. The Board considered whether this Statement should provide general requirements for the accounting treatment of assets restricted for payment of asset retirement liabilities but concluded it is not necessary. The Board notes that general accounting treatment of restricted assets is addressed in current literature, such as provisions in Statement 34.

B54. The Board considered whether this Statement should permit governments to offset their asset retirement liabilities with assets restricted for payment of those liabilities. Statement 62 provides that assets and liabilities should not offset each other unless a right of offset exists. The Board also notes the definition of *setoff* (interchangeable with the term *offset*) in *Black's Law Dictionary* as "a debtor's right to reduce the amount of a debt by any sum the creditor owes the debtor; the counterbalancing sum owed by the creditor." The Board does not believe a government's use of assets restricted for payment of asset retirement liabilities meets the definition of setoff because the transaction does not represent a traditional debtor-creditor relationship in which such a legal right exists and could be exercised. Therefore, the Board concluded that governments should not be permitted to use the assets restricted for payment of asset retirement obligations to offset the related liabilities.

B55. The Board considered whether assets restricted for payment of asset retirement liabilities should be reported as a separate line item with their own category of restriction on the face of the financial statements or disclosed in the notes to the financial statements. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, contains criteria for reporting information items in the financial statements or disclosing information in the notes to the financial statements. The Board does not believe there is a compelling reason to require assets restricted for payment of asset retirement liabilities to be reported as a separate line item on the face of the financial statements, with their own category of restriction and distinctive from the aggregate amount of restricted assets. There are few precedents in current guidance that require one specific restriction to be separately reported as its own line item on the face of the financial statements. The Board does not believe such an exception is necessary for asset retirement obligations. Based on the criteria in Concepts Statement 3, the Board believes the notes to the financial statements can be used to provide more detail about the nature or purposes of the restriction placed on assets that are aggregated on the face of the financial statements, thereby informing users of the amount of assets that are restricted for payment of an asset retirement liability. Therefore, the Board decided that governments should disclose assets restricted for payment of an asset retirement liability in the notes to the financial statements if not apparent from the financial statements.

B56. Compliance with funding and assurance provisions may require a government to incur certain costs, such as legal consulting fees and additional staffing costs. These costs would not directly affect the amount of the asset retirement liability because the liability exists regardless of whether the government complies with specified funding and assurance provisions. Therefore, the Board concluded that the costs to comply with funding and assurance provisions should be separately accounted for as period costs and not as part of the asset retirement liability.

Notes to Financial Statements

B57. In addition to the concepts for note disclosure in GASB Concepts Statement 3 and the feedback from task force and GASAC members, the Board considered each disclosure required by GASB Statements 18 and 49, and FASB Codification Subtopic 410-20. Because each of these standards provides guidance for transactions that are similar to asset retirement obligations, the Board decided to develop the disclosure requirements for asset retirement obligations based on those standards rather than creating an entirely new set of disclosures. The Board believes that providing similar disclosures for asset retirement obligations is practical and will reduce compliance costs.

Required Disclosures

B58. The Board considered the disclosure of a general description of the asset retirement obligations and associated tangible capital assets, as well as disclosure of the nature and source of the obligations. The Board believes this information is essential for users of the financial statements to understand how asset retirement liabilities originate and why asset retirement obligations are legal obligations that governments have little or no discretion to avoid.

B59. The Board also considered the disclosure of the methods and assumptions used to estimate asset retirement obligations. Various assumptions may be used to develop estimates, and the Board believes that disclosure of the methods and assumptions is necessary for users to evaluate the reasonableness of those estimates and to apply their own judgment. Absence of this information could imply a level of certainty in the estimates that may not exist. The Board concluded that requiring the disclosure of the methods and assumptions used in formulating the estimate of an asset retirement obligation provides essential information for users to understand the economics of those estimates.

B60. The Board decided that the estimated remaining useful life of tangible capital assets associated with asset retirement obligations should be disclosed. The Board believes this information is essential for users, especially considering the Board's decision that asset retirement obligations should be measured at their settlement amount. The Board believes that it is vital for users to understand the time remaining until the settlement of the liability is expected to commence.

B61. This Statement provides that governments legally required to provide funding and assurance should disclose how those legal requirements are being met. The Board believes that when a government is legally required to provide this type of funding and assurance, that fact and the methods used to meet those requirements constitute essential information for users of the financial statements.

B62. Similarly, this Statement requires disclosure of the amount of assets legally restricted for payment of asset retirement liabilities if that information is not apparent from the financial statements. Based on pre-agenda research, the Board believes this information is essential for users' understanding of how governments plan to cover the costs of asset retirement activities.

B63. In some situations, a government may be aware of an asset retirement obligation that has been incurred but is not reasonably estimable in whole or in part. In such situations, this Statement requires that the government disclose that fact and the reasons that make it impossible to reasonably estimate the liability. The Board expects situations in which a government is unable to reasonably estimate at least some portion of the liability to be infrequent. However, it may be more common that a portion of the liability cannot yet be estimated with sufficient reliability to support recognition. The Board believes it is important to disclose the existence of these circumstances, as well as the reasons therefor.

Disclosures Considered but Not Required

B64. Other disclosure requirements were considered by the Board but not adopted in this Statement. The Board discussed the possibility of including a reconciliation schedule. Such a disclosure would provide information about the amount of the beginning and ending balance of the asset retirement liability, as well as the sources of the increase or decrease in the liability during the reporting period. However, the Board was concerned that such a requirement could be redundant considering the existing requirement in paragraph 119 of Statement 34 to disclose a reconciliation of changes in all long-term liabilities, by major class. The Board then considered requiring governments to disclose the amount of each significant addition and reduction in the estimated liabilities for the reporting period, as well as the factors that caused those significant changes. The Board noted that information related to changes in long-term liabilities by major class is required to be presented in management's discussion and analysis under existing guidance. The Board believes that when asset retirement obligations are significant enough to warrant note disclosures, existing guidance already would require governments to provide the information users need. Therefore, it is not necessary to separately require these disclosures for asset retirement obligations in this Statement.

B65. In addition to disclosing the estimated remaining useful life of a tangible capital asset associated with a government's asset retirement obligation, the Board considered whether the government also should disclose the percentage of that tangible capital asset's estimated service utility already used. This disclosure would have been similar in some respects to the Statement 18 requirement to disclose the percentage of landfill capacity used to date. However, the Board noted that, under Statement 18, governments are required to measure a liability for municipal solid waste landfills' closure and postclosure care costs in each reporting period based on a formula that incorporates the percentage of the landfill's capacity used to date. Consequently, information about that percentage is essential for users to understand the liability recognized for closure and postclosure care costs in each reporting period. In contrast, liabilities for asset retirement obligations in the scope of this Statement are measured differently. Therefore, the Board does not believe information about the percentage of a capital asset's estimated service utility already used would provide essential information to users.

B66. The Board considered the disclosure of the potential for changes based on factors such as price increases and decreases, changes in technology, and changes in applicable laws and regulations. The Board acknowledged that this language could be used to inform users of the potential for large changes. However, the Board believes that other disclosures that clearly present the changes that occur in the estimates of these amounts should be sufficient to demonstrate to users that these estimates are subject to change.

B67. The Board also considered the requirement in Statement 49 to disclose estimated recoveries as a potential disclosure for this Statement. In assessing this disclosure, the Board notes that some governments purchase insurance to cover risks of, for example, early retirement of a nuclear power plant or retirement cost overruns. The Board also notes that often there is shared responsibility between governments and other potentially responsible parties for pollution remediation obligations as addressed by Statement 49. However, asset retirement obligations typically are extinguished using resources of the responsible government. Further, the Board also believes that in cases in which recoveries may exist for a government's asset retirement obligations, paragraph 112 of Statement 62, which requires disclosure of gain contingencies, would apply.

Considerations Related to Benefits and Costs

B68. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B69. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in conformity with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze information to meaningfully inform their assessments and decisions.

B70. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has actually taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B71. The Board assessed the expected benefits and perceived costs of these requirements at two levels—for individual decisions and for the entirety of the Statement. Throughout its deliberations, the Board specifically considered the relative expected benefits and perceived costs of individual decisions and also considered information gathered related to asset retirement obligations from the pre-agenda research. For example, the Board took into account feedback from project task force members and GASAC members regarding the availability of information related to asset retirement obligations and the estimated effort that would be necessary to collect information that is not already on hand.

B72. Certain decisions made by the Board in developing this Statement were intended to minimize the cost of compliance with the standards. For instance, the decision to require the use of current value to measure asset retirement liabilities may not be as complex as fair value measurement using the expected present value technique. Also, the approach selected for the measurement of asset retirement liabilities explicitly includes consideration of the costs required to obtain information.

B73. The Board also considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements of this Statement. The Board is aware that the cost of implementing the provisions of this Statement may be significant for some governments; in particular, for those governments that have not previously reported asset retirement obligations. The Board notes that this project addresses a topic for which there is currently no authoritative guidance. This lack of authoritative guidance has contributed to diversity in practice in which some governments analogize to nonauthoritative guidance or do not report asset retirement obligations at all. For those governments that already report asset retirement obligations by analogizing to other guidance, the costs of applying this guidance may not be significant, and these costs would principally relate to initial implementation rather than ongoing compliance. For governments that do not currently report asset retirement obligations, there may be ongoing costs to comply with the requirements of this Statement in addition to the costs to implement this Statement. However, the Board believes that the expected benefits of providing more consistent and transparent information about asset retirement obligations will outweigh the potential incremental costs of implementation for governments.

Effective Date and Transition

B74. The provisions of this Statement are effective for reporting periods beginning after December 15, 2017. The Board believes that this effective date allows adequate time for financial statement preparers to plan for transition and implementation. The Board also notes that because current value is the measurement technique used to measure the liabilities in both Statement 49 and this Statement, even though paragraph 4 of Statement 49 would be amended by this Statement, no restatement would be needed during the transition period for governments that have applied Statement 49 by analogy for asset retirement obligations. Some governments may wish to implement earlier than that date. The Board believes that early implementation would not significantly affect comparability. Accordingly, this Statement encourages early application.

B75. The Board believes that this Statement should be applied retrospectively to encourage consistency and comparability. However, the Board considered the potential for the lack of readily available information for the presentation of the restatement of all prior periods and for similar disclosure requirements. Accordingly, if restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated.

B76. The phrase *if practical* has been used in other GASB standards in a similar context as the phrase *if practicable* is used in this Statement with respect to transition provisions that require restating the financial statements for all prior periods presented. The change in terminology was made to more clearly convey the transition requirements. The Board believes that reasonable efforts should be deployed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable*.

Alternative View

B77. One Board member expresses an alternative view to this Statement because this Statement requires the liability for an asset retirement obligation to be measured initially at its current value rather than at a discounted value and thereby fails to take into account the time value of money. This Board member believes that, as a result of this Statement, governments will be required to report a liability that may be significantly overstated relative to its economic value.

B78. That Board member notes that the concept of discounting liabilities is well established in the literature of accounting as well as in that of finance and economics. In accounting, all major obligations (for example, bonds and long-term notes, pensions, and capital leases obligations), with few exceptions, are reported at discounted amounts. Therefore, that Board member sees no reason to make an exception for asset retirement obligations.

B79. That Board member also notes that discounting is especially important for asset retirement obligations because the time between initial recognition of the liability and its liquidation is frequently as long as 40 to 50 years, such as in the case of nuclear power plants. Thus, even with low discount rates, the difference between the economic value of the liability and the reported value as required by this Statement may be especially large.

B80. That Board member further observes that governments may be required by regulatory authorities, or may voluntarily elect, to fund their asset retirement obligations as they are incurred. The amount of resources to be set aside for that purpose would presumably take into account investment earnings and would thereby be approximately equal to the discounted value of the obligation. The resultant mismatch between the reported values of the liability and the designated assets would make it appear that the liability was only partially funded when, in fact, it may be fully funded.

B81. That Board member acknowledges that the timing and amount of cash flows may be uncertain and the selection of discount rates subjective. However, the Board member does not believe that those reasons provide sufficient compelling evidence to avoid discounting the cash flows. The Board member observes that uncertainty and subjectivity are endemic in accounting and financial reporting—notably inherent, for example, in measurements relating to pensions, other postemployment benefits, and various types of contingencies. The Board member concedes that measuring an asset retirement obligation at current value and remeasuring it at least annually for inflation achieves some of what discounting is intended to accomplish. However, discounting is not done for the sole, or even primary, purpose of recognizing inflation. Discounting is done mainly to take into account the time value of money and is therefore essential to establishing economic value even in the absence of inflation.

B82. That Board member observes that almost no governments can be expected to have more than a very few asset retirement obligations. Therefore, the accounting burden will be minimal regardless of the required methodology. Nevertheless, discounting is at least as simple to apply and as understandable to both preparers and users as is the current value approach. Once the initial value of the obligation is determined, the government can readily prepare an amortization schedule and make predetermined adjustments to the account thereafter—no differently than it does with any other asset or liability that it amortizes or depreciates. Unlike the current value approach, discounting requires no annual determination of the rate of inflation and subsequent adjustment. Thus, it is likely to be even less costly to apply than the approach advanced in the proposed standard.

B83. In assessing governments' financial condition, many financial analysts take into account asset retirement obligations as they do other long-term obligations. Hence, they can be expected to prefer that asset retirement obligations be measured and reported on the same basis—that is, at a discounted amount. Still, that Board member acknowledges some financial analysts also may want information on the current value of an asset retirement obligation, owing to the possibility that the asset would be retired prematurely and the liability would therefore have to be settled earlier than anticipated. The Board member agrees that such information is important but believes that it can readily be disclosed either in notes or parenthetically on the face of the financial statements.

B84. Finally, that Board member notes that in the absence of applicable GASB standards, many governments presently discount their asset retirement obligations. The Board member sees no reason to require them to change.

Appendix C

CODIFICATION INSTRUCTIONS

C1. The instructions that follow update the June 30, 2015 *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[In all sections, update cross-references.]

* * *

REPORTING LIABILITIES **SECTION 1500**

See also: [Add the following:] Section A10, "Asset Retirement Obligations"

.102 [In the first sentence, replace *postclosure care* with *postclosure care and other asset retirement obligations;* in sources, add GASBS XX, ¶22 to the amending sources of NCGAS 1, ¶42.]

.103 [In the fourth sentence, replace *postclosure care* with *postclosure care and other asset retirement obligations;* in sources, add GASBS XX, ¶22 to the amending sources of NCGAS 1, ¶43.]

.117 [In the third sentence, replace *postclosure obligations* with *postclosure obligations and other asset retirement obligations*.] [GASBI 6, ¶9, as amended by GASBS 47, ¶3, GASBS 49, ¶9 and ¶24, and GASBS XX, ¶22]

.119 [In second bullet, replace *postclosure care costs* with *postclosure care costs and other asset retirement obligations*.] [GASBI 6, ¶11, as amended by GASBS 47, ¶3, GASBS 49, ¶24, and GASBS XX, ¶22]

* * *

BASIS OF ACCOUNTING **SECTION 1600**

See also: [Add the following:] Section A10, "Asset Retirement Obligations"

.118 [In the third sentence, replace *postclosure obligations* with *postclosure obligations and other asset retirement obligations*.] [GASBI 6, ¶9, as amended by GASBS 47, ¶3, GASBS 49, ¶9 and ¶24, and GASBS XX, ¶22]

.122 [In this first sentence, replace *postclosure care costs* with *postclosure care costs and other asset retirement obligations*.] [GASBI 6, ¶14, as amended by GASBS 47, ¶16, GASBS 49, ¶24, and GASBS XX, ¶22]

.123 [In the first sentence, replace *postclosure care costs* with *postclosure care costs and other asset retirement obligations, pollution remediation obligations,*.] [GASBI 6, ¶15, as amended by GASBS 49, ¶24 and GASBS XX, ¶22]

.124 [In footnote 10, replace *postclosure care costs* with *postclosure care costs and other asset retirement obligations*.] [GASBI 6, fn7, as amended by GASBS 47, ¶3 and ¶12–¶14, GASBS 49, ¶9, and GASBS XX, ¶22]

* * *

NOTES TO FINANCIAL STATEMENTS SECTION 2300

.107 [Insert new subparagraph (v) as follows; renumber subsequent subparagraphs:] Asset retirement obligations. (See Section A10, "Asset Retirement Obligations," paragraphs .121 and .122.)

* * *

[Insert new section as follows; boldface glossary terms the first time they are used in the section:]

ASSET RETIREMENT OBLIGATIONS SECTION A10

Sources: GASB Statement 49, GASB Statement XX

See also: Section L10, "Landfill Closure and Postclosure Care Costs"
Section P40, "Pollution Remediation Obligations"

Scope and Applicability of This Section

.101 This section establishes standards of accounting and financial reporting for certain **asset retirement obligations.**[1] The requirements of this section apply to financial statements of all state and local governments. [GASBS XX, ¶3]

[1]Terms defined in the glossary (paragraphs .501–.505) are shown in **boldface type** the first time they appear in this section. [GASBS XX, fn1]

.102–.121 [GASBS XX, ¶4–¶6 and ¶8–¶24, including headings and footnote.]

.122 [GASBS XX, ¶25, including heading; insert the following footnote on the term *asset retirement obligations* before subparagraph a:]

[3][GASBS 49, fn3]

.123 [GASBS XX, ¶26]

DEFINITIONS

.501–.505 [GASBS XX, ¶29; insert GASBS XX, ¶29 as the source of each paragraph.]

* * *

CLAIMS AND JUDGMENTS SECTION C50

See also: [Add the following:]

Section A10, "Asset Retirement Obligations"
Section P40, "Pollution Remediation Obligations"

.701-5 [In the answer, replace *Section P40* with *Section P40 or Section A10, as appropriate*.] [GASBIG 2015-1, Q3.51.1, as amended by GASBS XX, ¶3]

* * *

LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS SECTION L10

See also: [Add the following:] Section A10, "Asset Retirement Obligations"

* * *

POLLUTION REMEDIATION OBLIGATIONS SECTION P40

See also: [Add the following:] Section A10, "Asset Retirement Obligations"

.102 [Replace subparagraph (b), including footnote 3, with the following; renumber subsequent footnotes:]

b. Asset retirement obligations within the scope of Section A10, such as nuclear power plant decommissioning. However, this section applies to landfill closure and postclosure care activities not addressed in Section L10 *at the time of the landfill closure if* obligating events are met a liability has not been recorded previously.

[GASBS 49, ¶4, as amended by GASBS XX, ¶3]

* * *

C2. The instructions that follow update *Implementation Guide No. 2015-1* for the effects of this Statement. That Guide, as modified, will be incorporated into the *Comprehensive Implementation Guide.*

* * *

3.51.1. [In the answer, replace *Statement No. 49,* Accounting and Financial Reporting for Pollution Remediation Obligations, with *Statement No. 49,* Accounting and Financial Reporting for Pollution Remediation Obligations, *or Statement No. XX,* Certain Asset Retirement Obligations, *as appropriate.* [GASBIG 2015-1, Q3.51.1, as amended by GASBS XX, ¶3]