Letter of Comment No. 28
File Reference No. 3-27E
Date Received: 4/13/2016

AICPA® PCPS
Private Companies Practice Section

American Institute of CPAs
220 Leigh Farm Road
Durham, NC 27707-8110

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David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: December 7, 2015 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, *Certain Asset Retirement Obligations* [Project No. 3-27E]

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 412,000 members in 144 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC believes this ED addresses important considerations for state and local governments that have asset retirement obligations. TIC supports the provisions of the proposal, although the committee expressed some hesitation about the current value measurement approach. Ultimately, the governmental members of TIC did not object to the current value method. TIC also believes that a coordinated approach to environmental obligations would be a better path for the Board to pursue. This and some suggestions for enhancing the clarity of the proposal and a few editorial corrections are discussed below.

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SPECIFIC COMMENTS

Current Value Measurement Approach for Asset Retirement Obligations

After much debate, TIC members who practice in the governmental arena decided that they would not object to the use of the current value method for the measurement of a government's liability for its asset retirement obligations. However, the level of support among the governmental members varies. All of them like the simplicity of the current value method, but most of them remain uncertain about its technical merits compared to the present value method. They are not fully confident that the current value method would really be equivalent to the present value method in all cases, as implied in paragraph B36. One governmental member, however, was fully supportive of the current value method, especially for smaller governments that need to reduce measurement complexities wherever possible.

Most TIC members (governmental and nongovernmental alike) initially favored the present value method. Discounted present value is already a common measurement technique in governmental and nongovernmental financial statements and is familiar to (and, perhaps, may be expected by) financial statement users. Some TIC members have expressed some concerns over adopting a new method that would be inconsistent with FASB accounting for the same transaction or event. In their view, if two standard-setting bodies in the U.S. issue guidance on the same topic, then the resulting standards should not differ significantly unless major differences exist between the two frameworks and the capital markets in which they participate. They expressed concerns that use of the current value method could create confusion among the user community and misunderstandings as to the impact of the liability on the financial statements as well as how this liability relates to other long-term obligations that are based on a discounted cash flow model.

After discussion with the GASB staff, the governmental TIC members now see parallels with the current cost/current value approaches in GASB Statements 18 and 49. The governmental TIC members ultimately decided not to object to the current value method proposed in this ED based on that discussion as well as the assurances expressed in paragraph 39 of the Basis for Conclusions that "…both present value and current value can achieve the objectives and qualitative characteristics of financial reporting." If adoption of current value reduces complexity and is essentially equivalent to the results obtained under the present value method, then current value may represent an improvement in financial reporting for asset retirement obligations.

As noted above, TIC's discussions with the GASB staff were especially helpful because they explained the ways in which the current value method were consistent with GASB Statements 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, and 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. These similarities were not evident based on TIC's reading of the Basis for Conclusions in the ED. TIC therefore recommends, at a minimum, that the Basis for Conclusions in the final standard provide a thorough explanation of these similarities so that the appropriate parallels may be drawn among the principles in each standard.

Preferentially, however, TIC recommends that the GASB conduct a comprehensive project on environmental remediation obligations which would re-examine GASB Statement 18 and GASB Statement 49, together with the conclusions in this ED. A comprehensive project on this topic would also provide an opportunity to confirm the Board's rationale for supporting the current cost/current value measurement method in one set of standards while using a present value approach in others. TIC also believes the accounting guidance for all environmental obligations should be aligned and codified together to the extent possible so as to improve constituents' understanding of the underlying accounting principles for these transactions.

<u>Inter-relationship Between GASB Statement No. 49 and Contamination-Related Asset Retirement Obligations</u>

Paragraph 10(a) of the ED is unclear as it relates to the definition of contamination-related asset retirement obligations. The source of confusion is subparagraph 2 under paragraph 10(a), which attempts to clarify that the definition of contamination for this ED is, in part, "contamination that…is not in the scope of Statement 49," *Accounting and Financial Reporting for Pollution Remediation Obligations*.

TIC believes this subparagraph is unnecessary since paragraph B7 and the proposed amendments to Statement 49 in this ED clarify that the final asset retirement obligation standard will eliminate the need to refer to Statement 49 when remediation activities occur at the time of the retirement of the asset and no previous liability was recorded. Therefore, there is no longer any guidance in Statement 49 that applies to asset retirement obligations as defined in this ED.

Therefore, TIC recommends eliminating subparagraph 2 of paragraph 10(a), which, as discussed above, is not necessary because the proposed standard addresses 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.

To further clarify the scope and applicability of Statement 49 v. this ED, TIC also recommends an additional amendment to Statement 49 to clarify that its scope is limited to existing pollution that did not result from the normal operations of the tangible capital asset. The asset retirement obligation proposal already includes the converse of this statement in subparagraph 1 of paragraph 10(a)—that is, the scope of the ED is limited to contamination that is the result of the normal operation of a tangible capital asset. TIC believes including parallel guidance in both places will facilitate a better understanding of the differences between the two standards.

EDITORIAL COMMENTS

<u>Basis for Conclusions—Recognition of an Outflow of Resources</u>

Paragraph B28 discusses, in part, the Board's consideration of a rejected alternative relating to the subsequent accounting for the deferred outflow of resources that is debited upon initial recognition of the asset retirement obligation. Under this alternative, the deferred outflow of resources would be amortized and recognized as an outflow of resources after the actual disbursements were made to pay for the obligation. The following sentence, which was intended to describe the effect of the rejected alternative, seems to be missing a few words, as noted below:

> *Therefore, this alternative could* [missing words] *the recognition of outflows of resources to periods to which the consumption of net assets is not applicable.*

Codification Instructions—page 34

TIC noted a missing word in the codification instructions for Section P40, *Pollution Remediation Obligations*, paragraph .102(b). Below is the paragraph in question with the suggested correction underlined in boldface type:

> 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 <u>**and**</u> a liability has not been recorded previously.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Michael A. Westervelt

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees