INTERNATIONAL

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Standard Guide for Recognition and Derecognition of Environmental Liabilities[1]

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1. Scope

1.1 *Purpose*—The purpose of this guide is to provide a series of options or instructions consistent with good commercial and customary practice for recognition and derecognition of environmental liabilities. This guide is consistent with Generally Accepted Accounting Principles (GAAP). Recognition of environmental liabilities is essential to determining the current book value of an entity. An entity may have future spending to extinguish risk and liabilities triggered in the past. Serious consequences, ranging from failed audits and poor capital stewardship to financial fraud and bankruptcy, exist for entities omitting material information from financial statements.

1.2 *Objective*—This guide enables users to reliably determine if a given type of environmental liability exists and subsequently has been settled, consistent with the accounting definitions in place.

1.3 *This international standard was developed in accordance with internationally recognized principles on standardization established in the Decision on Principles for the Development of International Standards, Guides and Recommendations issued by the World Trade Organization Technical Barriers to Trade (TBT) Committee.*

2. Referenced Documents

2.1 *ASTM Standards:*[2]

E2137 Guide for Estimating Monetary Costs and Liabilities for Environmental Matters

E2173 Guide for Disclosure of Environmental Liabilities

E3033 Guide for Beneficial Use of Landfills and Chemically Impacted Sites

Generally Accepted Accounting Principles:

2.2 *FASB – Financial Accounting Standards Board*[3]

Statement of Accounting Concepts No. 6 Elements of Financial Statements

Statement of Accounting Concepts No. 8 Conceptual Framework for Financial Reporting

ASC Topic 410-20 – asset retirement obligations

ASC Topic 410-30 – other environmental obligations

ASC Topic 420 – exit/disposal costs

ASC Topic 440 – commitments

ASC Topic 450 – contingencies

ASC Topic 460 – guarantees

ASC Topic 805 – business combinations

ASC Topic 820 – fair value measurement

2.3 *GASB – Government Accounting Standards Board:*[4]

Section A10: Certain Asset Retirement Obligations (originally Statement 83)

Section F30 : Financial Guarantees

Section P40 : Pollution Remediation Obligations (originally Statement 49)

Section L10 : Landfill Closure and Postclosure Care Costs (originally Statement 18)

Section 1500 : Reporting Liabilities

Section 2250 : Additional Financial Reporting Considerations

Section 3100 : Fair Value Measurement (originally GASB 72)

2.4 *IASB–International Accounting Standards Board:*[5]

IAS 37 – provisions, contingent liabilities and contingent assets

IFRS 3 –business combinations

IFRS 13 –fair value measurement

3. Terminology

3.1 *Definitions:* (italicization identifies defined terms.)

3.1.1 *acceptable use*—an environmental professional's description of a proposed beneficial use, characterized by the nature and duration of activities involved, for a property that is evaluated and determined to be protective of human health,

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[1] This test method is under the jurisdiction of ASTM Committee E50 on Environmental Assessment, Risk Management and Corrective Action and is the direct responsibility of Subcommittee E50.05 on Environmental Risk Management.

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[2] For referenced ASTM standards, visit the ASTM website, www.astm.org, or contact ASTM Customer Service at service@astm.org. For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

[3] Available from Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116, http://www.fasb.org

[4] Available from Governmental Accounting Standards Board, 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116 http://www.gasb.org/

[5] Available from International Accounting Standards Board, 30 Cannon Street London, EC4M 6XH United Kingdom http://www.ifrs.org

public safety, and welfare with, if necessary, specified engineering and institutional controls and established signage.

3.1.2 *accounting framework*—the accounting standards and principles relevant to an entity's function. As many issuers of accounting standards and principles exist worldwide, it is common for entities to observe the standards of several issuers concurrently.

3.1.3 *accrual*—a value placed on a recognized environmental liability. Accruals are adjusting entries to accounting records so that the financial statements report these amounts. This forms the basis of "accrual accounting" methods.

3.1.4 *accretion*—an increase to the present value of a liability solely due to the passage of time, normally a year; also known as "unwinding the discount."

3.1.5 *activity and use limitations, or AUL*—legal or physical restrictions or limitations on the use of, or access to, a site or facility to eliminate or minimize potential exposures to chemicals of concern, or to prevent activities that could interfere with the effectiveness of a response action, to ensure maintenance of a condition of "acceptable risk" or "no significant risk" to human health and the environment. These legal or physical restrictions are intended to prevent adverse impacts to individuals or populations or environmental receptors that may be exposed to chemicals of concern.

3.1.6 *allocation or allocated share*—the portion of cost or liability for which a party is responsible for payment or reimbursement.

3.1.7 *asset retirement obligation, ARO*—legal or constructive obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, development, or normal operation of a tangible long-lived asset. Activities include (but are not limited to) demolition, decommissioning, decontamination, reclamation, restoration and abandonment.

3.1.8 *claim*—a demand for payment or performance of services.

3.1.9 *commitment*—contracts creating environmental risks, typically outside of regulatory oversight. For example, a lease requirement to "return a property to original condition at lease-end" may create duties beyond those obligations caused by environmental regulations. Another example is a cost-sharing agreement for environmental liabilities between a buyer and a seller, or between an insurer and their insured.

3.1.10 *component*—a portion of a liability.

3.1.11 *contingency*—an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur (ASC 450-20-20). Examples include *(a)* injury or damage caused by products sold; *(b)* risk of loss or damage of property by fire, explosion or other hazards; *(c)* actual or possible claims and assessments; *(d)* threat of expropriation of assets; and *(e)* pending or threatened litigation. (ASC 450-30-05-10)

3.1.12 *constructive obligation*—the concept that past practice or statement creates a valid expectation on the part of a third party. An example of this is a company policy to excavate underground storage tanks once removed from service. Also known as promissory estoppel.

3.1.13 *costs and liabilities*—economic expenses, accrued liabilities, asset retirement obligations, impairments, and loss contingencies.

3.1.14 *derecognize*—remove previously recognized assets or liabilities from the statement of financial position.

3.1.15 *dutyholder*—entity responsible for the costs and liabilities.

3.1.16 *environmental liabilities*—a set of liabilities consisting of five types: *asset retirement obligations, other environmental obligations, commitments, contingencies and guarantees*. Outside of a transaction, the ordinary value of these liabilities are their provisions (consisting of long-term and short-term portions). Within an actual or proposed transaction, environmental liabilities have "fair value measurement" (also "due diligence") values.

3.1.17 *equitable*—a type of obligation based on moral or social expectations, which is typically not enforceable. However, it is uncommon for an equitable obligation to lack a concurrent contractual, regulatory and/or constructive obligation(s).

3.1.18 *estimator*—an individual or entity that prepares and analyzes costs and liabilities.

3.1.19 *event*—a condition or incident which occurred, or may occur, with respect to an environmental condition and/or environmental compliance issue, that causes exposure to risks, and may result in liabilities.

3.1.20 *extinguishment*—settlement of environmental liabilities, normally through the performance of services or cash payments. Extinguishment through bankruptcy or corporate dissolution is uncommon. Extinguishment (or settlement) is the normal condition for derecognition.

3.1.21 *fair value*—an estimate of the price that could be received for an asset or paid to settle a liability in a current transaction between marketplace participants that are unrelated, knowledgeable about factors relevant to the liability and the transaction, able, and willing to transact in the reference market for the liability. Sometimes interchangeably called "due diligence value". Also, this approach implies a comprehensive and auditable expected value calculation.

3.1.22 *fines and penalties*—a subtype of environmental liabilities defined primarily in ASC Topic 450 Contingencies; tax deductibility of fines and penalties is typically a relevant factor in the value and materiality of an environmental liability.

3.1.23 *guarantee*—a type of environmental liabilities defined primarily in ASC Topic 460 Guarantees, the distinct value of a promise to perform or pay, in the event that another party does not. Under "joint and several liability", a guarantee typically exists among the PRPs at a Superfund site. The cost of a CERCLA financial assurance instrument, such as a letter of credit or performance bond, is a guarantee above and beyond the cost of the guaranteed work or payment itself.