

Environmental Liabilities with the Codification—Is It Simpler? Better?

RAYMOND R. ROSE*

I. INTRODUCTION

For standards and guidance (instructions) about recognition, measurement, and disclosure of environmental liabilities under U.S. generally accepted accounting practices (US GAAP), nongovernmental entities have had numerous documents to locate and review, for a mix of essential and nonessential, and sometimes conflicting, information from a variety of sources. These sources have included Statements, Interpretations, Technical Bulletins, Staff Positions, and other documents of the Financial Accounting Standards Board (FASB); regulations, Interpretive Releases, Staff Accounting Bulletins, and other pronouncements of the U.S. Securities and Exchange Commission (SEC); and information from professional associations, e.g., the American Institute of Certified Public Accountants (AICPA) and ASTM International. Entities, understandably, may have had difficulty, when considering needs or issues, in discerning what instructions from among sources pertained and were authoritative, and under what circumstances.

For example, entities have had FAS 5 (FASB, 1975a) and its Interpretation FIN 14 (FASB, 1975b) to apply for recognizing, measuring, and disclosing loss contingencies, including environmental loss contingencies. Different instructions have circulated for application to loss contingencies in business combinations, under drafts of FAS 141R (FASB, 2007), which was not finalized. Other documents, FAS 143 (FASB, 2001) and FIN 47 (FASB, 2005), have held instructions for entities to meet equivalent (recognition, measurement, and disclosure) needs for asset retirement obligations, which require fair value measurement, so FAS 157 (FASB, 2006) also has pertained. FAS 157 has been relevant for measurement of loss contingencies under FAS 141R, but in circumstances that have changed in successive (FAS 141R) drafts. With FASB's system of separate, multiple sources, entities may have

* Raymond R. Rose is president and environmental management consultant at Rose Environmental. He has more than 30 years experience in evaluating problems and developing management and software-based solutions for businesses to improve environmental performance and reduce costs, including for corporate environmental disclosure.

Address correspondence to: Raymond R. Rose, Rose Environmental, 1322 30th Street, NW, Washington, DC, 20007. Phone: 202.361.3615. Email: raymond.rose@roselink.com.

found it perplexing to understand, use, and stay current on instructions for environmental liabilities.

With the Codification, FASB has changed things. Is the result simpler for entities? Better?

II. WHAT HAS CHANGED?

FASB has created a single source of authoritative nongovernmental US GAAP. Called the Accounting Standards Codification™ (ASC) or the Codification, FASB released it on July 1, 2009, for application by entities in interim and annual reporting periods ending after September 15, 2009 (FASB, 2009a).

III. FASB'S CONSIDERATION OF NEED AND SCOPE

Prior to beginning the Codification project, FASB solicited and obtained feedback from entities about its project need and scope. It heard that the “then-current structure of US GAAP was unwieldy, difficult to understand, and difficult to use” to the “vast majority” of respondents (FASB, 2009b). Respondents “believed that they may have missed relevant literature when they performed research,” because of the dispersed nature of US GAAP (FASB, 2009b). The “volume, complexity, and lack of integration made it difficult” for professionals to stay current and train personnel (FASB, 2009b). It “increase[d] financial reporting risks and create[d] inefficiencies that [led] to increased costs,” respondents contended (FASB, 2009b).

These responses confirmed for FASB the necessity of providing users with simpler access to US GAAP instructions, logically by locating “all the authoritative literature related to a particular Topic in one place.” (FASB, 2009b)

FASB determined that simply assembling a centralized database of existing documents would not be adequate. The limitations with such a database would result in insufficient improvement to information research for users. FASB concluded, instead, that it needed to develop a new organizational structure for US GAAP information.

The Trustees of the Financial Accounting Foundation authorized FASB's Codification project in September 2004. FASB's Codification product is the result of a 5-year effort that engaged more than 200 people from many entities (FASB, 2009b).

IV. WHAT THE CODIFICATION REPLACES

Codification content is preceded by more than 2,000 individual documents with instructions for accounting and reporting, developed over 50-plus years (FASB, 2009b). With its release, the Codification supersedes and replaces all other non-SEC instructions. Non-SEC instructions not included in the Codification are considered nonauthoritative.

Entities that cite sources for non-SEC instructions, e.g., to explain decisions in interim or annual reports, such as choice of liability

measurement methods, now must refer to the Codification, as other non-SEC instructions no longer apply. FASB suggests that a broad, plain-English reference to the Codification likely is sufficient in financial statements. When more detail is needed, it recommends the style shown in Appendix A.

V. THE CODIFICATION PRODUCT

The Codification is viewed online at <http://asc.fasb.org>, requiring a Username and Password for access. Users choose between the Basic View, which is free of charge, or the Professional View, which has more features and a fee for access, e.g., \$850 annually for a single user, with discounts for multiple users.

The product will have a printed version, which is not yet released, however. It does include the Accounting Standards Codification™ Research System (Codification Research System), which FASB developed along with the Codification to assist users in online research of accounting issues. Users can view superseded standards in the Codification Research System, where they are retained for archive purposes. Access to the Codification Research System is at the Professional View level, i.e., for a fee.

VI. FASB'S EXPECTATION

FASB intends that this single, organized source of authoritative, accurate, and current instructions, the Codification, will enable users to spend less time resolving accounting issues and have lower risk of noncompliance by being better informed. FASB expects that users will find most of the information they need by browsing for topics in the Codification's table of contents, which is topically-organized (FASB, 2009b).

FASB anticipates that users will need the text search feature, the Codification Research System, only for very specific items. FASB warns that the text search is based on specific language, i.e., on the particular choice of words. So, an imprecise search can result in exclusion of relevant content. Users have access to the text search feature at the Professional View level, i.e., for a fee.

VII. SO, WHERE ARE INSTRUCTIONS FOR ENVIRONMENTAL LIABILITIES?

Where are instructions for recognition, measurement, and disclosure of environmental liabilities? Locating them requires adjusting from the standards-based model for information that FASB formerly followed to FASB's topics-based model for the Codification. Recall that information in the standards-based model, from which the Codification content comes, had the topics loss contingencies and asset retirement obligations for environmental liabilities.

The Codification has roughly 90 formal Topics, subdivided further into Subtopics, Sections, paragraphs, and subparagraphs. Codification Topics are identified by 3-digit numbers, and Subtopics and Sections by 2-digit numbers.

Instructions for loss contingencies and asset retirement obligations in the Codification are found at the Subtopic level, in five Subtopics:

- FASB ASC Subtopic 410-20, Asset Retirement and Environmental Obligations – Asset Retirement Obligations.
- FASB ASC Subtopic 410-30, Asset Retirement Obligations and Environmental Obligations – Environmental Obligations.
- FASB ASC Subtopic 450-20, Contingencies – Loss Contingencies
- FASB ASC Subtopic 805-20, Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Liabilities.
- FASB ASC Subtopic 820-10, Fair Value Measurements and Disclosures – Overall.

Appendix B presents this information in more detail, including identification of the main sources for the Codification content.

After Subtopic, the Codification is organized in Sections, which have the same type of content in the same sequence (for each Subtopic). An omitted Section under a Subtopic means there is no content for that Section.

For example, FASB ASC Subtopic 410-20 (for asset retirement obligations) has content for recognition, measurement, and disclosure in these Sections:

- 25 Recognition
- 30 Initial Measurement
- 35 Subsequent Measurement
- 40 Derecognition
- 50 Disclosure
- 55 Implementation Guidance and Illustrations

Appendix C shows the Codification's master list of Sections.

VIII. WHAT ABOUT UPDATES?

Updating refers to revising existing instructions or developing new ones, which is a normal activity with FASB. Previously, FASB released updates separately, e.g., separate from the standards they were drafted to replace (and in separate drafts, as well). It may have been difficult for entities to know of potential changes and deadlines, and to track their status, under that process for updating.

Now, FASB updates the Codification Research System with the results of its standards-setting activities, in the form of Accounting Standards Updates, so that users have the benefit of the most current text. An Accounting Standards Update is composed of the background and bases for conclusions for the standards-setting activity, and an appendix of

Accounting Standards Update Instructions. It explains why FASB determined an update was needed and what the changes are.

As well, as FASB formally mulls over modifications to content, it displays in the Codification both the current (if there are existing instructions on the matter) and the pending text, with the latter identified clearly as “Pending Content.” For example, instructions for recognizing loss contingencies in business combinations, which formerly were part of FAS 141R, still are pending, so the beginning of each paragraph in FASB ASC Section 805-20-25 (for recognition of loss contingencies in business combinations) is labeled “Pending Content”. When FASB finalizes the ideas and wording in formerly pending text, i.e., when it becomes the authorized instructions, the outdated text no longer appears in the Codification.

Meanwhile, FASB will issue no more FASB Statements, Interpretations, Staff Positions, or Emerging Issues Task Force (EITF) Abstracts. Entities no longer should rely upon or cite already-issued versions of such documents as references in explaining decisions made or positions taken, because the Codification supersedes them and applies exclusively now.

IX. WHAT ABOUT SEC REQUIREMENTS?

Users have separately authoritative requirements from the SEC that pertain to environmental disclosure. Those requirements are not made part of FASB instructions, *per se*. Relevant portions of authoritative content issued by the SEC and selected SEC staff interpretations and administrative guidance, however, are included in the Codification for reference purposes only, as a convenience to users, according to FASB. FASB attempts to make it clear that the Codification does not replace or affect requirements or guidance issued by the SEC or its staff for public companies in their filings with the SEC.

The Codification’s SEC content is held in separate Sections, with headings that begin with the letter S. For example, FASB ASC Subtopic 450-20 (for loss contingencies) has SEC content in:

- S00 Status
- S25 Recognition
- S30 Initial Measurement
- S50 Disclosure
- S75 XBRL Elements
- S99 SEC Materials

Meanwhile, there is no SEC content in FASB ASC Subtopic 410-20 (for asset retirement obligations) or in FASB ASC Subtopic 820-10 (for fair value measurement), as indicated by no Section headings beginning with the letter S.

FASB reminds users that SEC content being in the Codification does not affect the SEC’s normal update procedures for the information. Users

may find delays between SEC changes and FASB's incorporation of the modified text in the Codification.

The Codification does not contain all SEC guidance. It excludes content outside the scope of basic financial statements. Notably, and potentially pertaining to an entity's environmental liabilities, it does not include SEC content from SEC Regulation S-K, Item 303, about Management's Discussion and Analysis (FASB, 2009b; SEC, 2007).

X. IS IT SIMPLER? BETTER?

A. Single vs. Separate Sources

Undoubtedly, having a single source for instructions is simpler for entities than multiple sources. Still, Codification users will have to learn where in the Codification is the information they formerly accessed in the other sources, which will take some initial effort. Users have assistance in that effort through the Codification's Cross Reference feature. With Cross Reference, users can select a source name, e.g., FAS 5, to find its content in the Codification. Users can reverse that process, as well, to identify the sources for Codification content by Topic, Subtopic, Section, and paragraph.

B. Organizational Structure

As mentioned earlier, FASB determined that simply assembling a database of existing documents would not sufficiently improve information research for users. It preferred developing a new database with an organizational structure that facilitated efficient and comprehensive information access.

FASB was up against problems, however. Sources having content needed in the Codification were not organized the same way. So, any structure FASB imposed in the Codification would sacrifice some continuity in source material. As well, some sources had more and better information than others. For example, the relatively recently drafted FAS 141R described the measurement of loss contingencies for business combinations in considerably more detail than did FAS 5 and FIN 14 for other situations. As well, the methods described were not the same. So, FASB had to work with sources having no shared organizational structure, different levels of information detail, and even instances of apparently conflicting instructions.

It was committed to using existing content, however, i.e., not creating new US GAAP. In fact, it feared doing that accidentally, in editing material from sources. That fear, unfortunately, was one reason it abandoned the idea of putting Codification content exclusively in active voice, i.e., in plain-English format.

FASB's resulting, topics-based organizational structure was described earlier for environmental liabilities, with more information shown in Appendices B and C. Users familiar with sources of the Codification's content may have little difficulty browsing the Codification's topics-based table of contents to find information pertaining to environmental liabilities.

Users new to such matters, however, may have some difficulty deducing relevant content from the table of contents. They may find themselves reviewing a considerable amount of Codification text before identifying necessary information. As already mentioned, keyword searching is available, using the Codification Research System, but only at the Professional View level. As well, FASB has warned that successful searches require careful choices of words, which may be unfamiliar to new users.

C. Online Access

Online access is highly convenient for users, as it involves no hard copies or files to manage; but it does require Internet access, and continuity in that access, when the Codification is needed. On the other hand, users that might have preferred printed or downloaded text would risk having out-of-date content immediately, and would be assured of it eventually.

It should be mentioned that users not accustomed to paying for FASB standards and guidance may be dismayed at the prospect of paying annually for access to the Codification “in full bloom,” e.g., for access to the Codification Research System, for text searches and archives.

D. Essential vs. Nonessential Information

Sources preceding the Codification typically contained two classes of information, which were (1) essential standards and implementation guidance and (2) nonessential material (FASB, 2009b). A goal of FASB was to incorporate only essential information in the Codification (FASB, 2009b). This logically was to minimize user text burden and to prevent user confusion from nonessential material.

Accordingly, FASB excluded (as nonessential material) “redundant summaries of existing standards, historical content, discussions of previous practice, summaries of constituent feedback, and similar content,” which typically were found in source summaries, bases for conclusions, and appendices (FASB, 2009b). FASB indicated it excluded as nonessential some information in standards content, as well.

Users can see what FASB identified as essential information through the Cross Reference feature, i.e., by tracking Codification content back to locations in sources.

E. Voice

Active voice is one of two voices of verbs (the other being passive). When the verb of a sentence is in active voice, the subject of the sentence is doing the acting. Writers (and readers) typically hold that use of active voice helps convey instructions clearly. Active voice is a key feature in “plain-English” format.

FASB considered developing the Codification in plain-English format. It determined, however, that eliminating passive voice in source content would require too much effort and cost too much. It feared, as well, the introduction of unintended changes to US GAAP (FASB, 2009b).

As a result, FASB decided not to revise voice in text transferred from sources, which makes little use of active voice, except in newer standards. FASB did prepare bridge content in active voice, which is a minor portion of Codification text, however.

F. Comparable Terms for Entity

FASB noted that sources used a variety of comparable terms in referring to an entity. These included the terms company, organization, firm, preparer, and others. Favoring consistency, FASB adopted the term entity for the Codification (FASB, 2009b).

G. Comparable Terms for Should

Sources typically indicated the necessity of actions by using words and phrases like should, shall, is required to, must, will, and others. FASB contended they referred to the same concept, and preferred consistent terminology for the Codification. So, FASB used the word shall in the Codification to indicate necessary actions. It used the words would and should in Implementation Guidance and Illustrations Sections, in portraying hypothetical situations (FASB, 2009b).

H. Generic Qualifying Terms

Sources typically used generic qualifying terms like generally, usually, ordinarily, and other similar words. FASB determined that such terms were ambiguous, instead of helpful, and did not include them in Codification content (FASB, 2009b).

I. eXtensible Business Reporting Language (XBRL)

The same month that FASB released the Codification, July 2009, it provided a reference file to XRBL-US with both text-based Codification references (as Topics, Subtopics, Sections, paragraphs, and subparagraphs) and electronic links to Codification paragraphs. XRBL-US published a taxonomy extension with the Codification references and links in August 2009.

So it was available, the taxonomy and Codification references, for preparation of XRBL financial statements for interim and annual periods ending after September 15, 2009, the effective date of the Codification. FASB stated that beginning in 2010 taxonomies no longer will reference the sources that the Codification replaced (FASB, 2009b).

J. Content Issues

In developing the Codification, FASB intended to create no new US GAAP. That is, it left concepts and text intact, to the extent it determined possible, in bringing material from sources to the Codification.

The downside is it left the consequences of confusing or conflicting instructions intact, as well. For environmental liabilities, this means parallel but differing instruction for measuring loss contingencies, for example, depending on whether they are associated with business combinations or not. It means that asset retirement obligations, along with some loss

contingencies, are measured at fair value, which is different from how other loss contingencies are measured; so entities may have environmental liabilities that are valued differently. This is similar to assigning value in different currencies, but—critically—with no capacity to convert them to the same currency for evaluating relative value, which normally would be part of making good management decisions about environmental liabilities.

It is a hard nut to crack, resolving differences in US GAAP that describe how environmental liabilities are measured. FAS 5's instructions and FIN 14's interpretation for loss contingencies have been in effect for entities a long time, since 1975 and 1976, respectively, and they do not require measurement at fair value. Meanwhile, FASB has been working toward convergence with International Financial Reporting Standards (IFRS), already in use in European Union countries, which have fair value measurement.

Tendencies by FASB to accommodate using concepts of both instructions, and to refine explanation of the application (and, perhaps, the merits) of each, for certain circumstances, ultimately do not resolve the matter. This is because they leave entities and investors dealing with separately, differently valued environmental liabilities, unfortunately.

XI. CONCLUSIONS

With FASB's Codification, is it simpler than before for entities? Is it better?

Undoubtedly, having a single source for instructions is simpler for entities than having multiple sources, as before, for instructions about recognizing, measuring, and disclosing environmental liabilities in accordance with US GAAP.

Still, Codification users will have to learn where in the Codification is information they formerly accessed in the other sources, which will take some initial effort. This is because users must adjust from FASB's former standards-based model for information in multiple sources to its topics-based organization for the Codification. With a topically-organized, single source for instructions, users should become more confident than before about having complete information for understanding issues and making decisions, which is better.

The Codification's online access is highly convenient for users, involving no hard copies or files to manage. Online access brings users FASB's most current instructions, including changes it is considering, identified as pending content. Formerly, it was difficult for entities to know of potential changes and deadlines, and to track their status; but this has been improved with the Codification, i.e., made better. The prospect of paying for full access to Codification features, e.g., for text searching and archives, may be dismaying to some users, however.

Some may find that consistency in the use of some terms and the absence of nonessential information make the Codification incrementally better than its source material.

In developing the Codification, FASB intended to create no new US GAAP. That is, it left concepts and text intact, to the extent it determined possible, in bringing source material to the Codification. This left also intact some confusing and conflicting instructions that apply in liability measurement, including for environmental liabilities. The result for entities and investors may be environmental liabilities that are valued differently, which prevents their evaluation relative to each other and complicates good decisions about their management. On this important matter for environmental liabilities, FASB did not make it simpler or better with the Codification.

REFERENCES

- AICPA (American Institute of Certified Public Accountants). 1996. *Environmental Remediation Liabilities, Statement of Position (SOP)*, 96-1, October.
- FASB (Financial Accounting Standards Board). 2009a. *Accounting Standards Codification*, <http://asc.fasb.org> (accessed November 18, 2009).
- _____. 2009b. *Accounting Standards Codification, Notice to Constituents (v 3.0) About the Codification*, October.
- _____. 2007. *Statement of Financial Accounting Standards No. 141 (revised 2007), Business combinations*.
- _____. 2006. *Statement of Financial Accounting Standards No. 157, Fair value measurements*.
- _____. 2005. *FASB Interpretation No. 47, Accounting for conditional asset retirement obligations, an interpretation of FASB Statement No. 143*.
- _____. 1975a. *Statement of Financial Accounting Standards No. 5, Accounting for contingencies*.
- _____. 1975b. *FASB Interpretation No. 14, Reasonable estimation of the amount of a loss, an interpretation of FASB Statement No. 5*.
- SEC (U.S. Securities and Exchange Commission). 2007. Regulation S-K, 17 CFR 229, Item 303. SEC 1845, March.

Appendix A. FASB's Recommended Citation Style for Formally Referring to Content in the Codification's Organizational Hierarchy.

<u>Hierarchy Level</u>	<u>Citation Style</u>
Topic	FASB ASC Topic XXX [, Topic Name]
Subtopic	FASB ASC Subtopic XXX-YY [, Topic Name – Subtopic Name]
Section	FASB ASC Section XXX-YY-ZZ [, Topic Name – Subtopic Name – Section Name]
Paragraph	FASB ASC paragraph XXX-YY-ZZ-A
Subparagraph	FASB ASC subparagraph XXX-YY-ZZ-A(b)

Examples:

FASB ASC Section 450-20-25 or

FASB ASC Section 450-20-25, Contingencies – Loss Contingencies – Recognition

Appendix B. Codification Subtopics and Main Sources with Instructions for Environmental Liabilities as Loss Contingencies and Asset Retirement Obligations.

Codification Subtopics

For loss contingencies:

FASB ASC Subtopic 410-30, Asset Retirement and Environmental Obligations – Environmental Obligations

FASB ASC Subtopic 450-20, Contingencies – Loss Contingencies

FASB ASC Subtopic 805-20, Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest

For asset retirement obligations:

FASB ASC Subtopic 410-20, Asset Retirement and Environmental Obligations – Asset Retirement Obligations

For fair value measurement:

FASB ASC Subtopic 820-10, Fair Value Measurements and Disclosures – Overall

Codification Main Sources

For loss contingencies:

FAS 5 (FASB, 1975a) and FIN 14 (FASB, 1975b), except in business combinations

FAS 141R (FASB, 2007) in business combinations

AICPA SOP 96-1 (AICPA, 1996)

For asset retirement obligations:

FAS 143 (FASB, 2001) and FIN 47 (FASB, 2005)

For fair value measurement:

FAS 157 (FASB, 2006)

Appendix C. Codification's Master List of Sections.

Sections for each Subtopic, in the Codification's XXX-YY-ZZ format, where XXX is Topic, YY is Subtopic, and ZZ is Section:

XXX-YY-00	Status
XXX-YY-05	Overview and Background
XXX-YY-10	Objectives
XXX-YY-15	Scope and Scope Exceptions
XXX-YY-20	Glossary
XXX-YY-25	Recognition
XXX-YY-30	Initial Measurement
XXX-YY-35	Subsequent Measurement
XXX-YY-40	Derecognition
XXX-YY-45	Other Presentation Matters
XXX-YY-50	Disclosure
XXX-YY-55	Implementation Guidance and Illustrations
XXX-YY-60	Relationships
XXX-YY-65	Transition and Open Effective Date Information
XXX-YY-70	Grandfathered Guidance
XXX-YY-75	XBRL Definitions