
Technical Bulletin 2011-2: Extended Deferral of the Effective Date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*

Status

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| Issued | September 22, 2011 |
| Effective Date | Effective upon issuance. |
| Interpretations and Technical Releases | None. |
| Affects | Technical Bulletin 2006-1, par. 50, by replacing the year "2011" with "2012." |
| Affected by | None. |

Summary

This Technical Bulletin extends the deferral of the effective date of Technical Bulletin 2006-1, ***Recognition and Measurement of Asbestos-Related Cleanup Costs***, by one year. The guidance in Technical Bulletin 2006-1 will be effective for reporting periods beginning after September 30, 2012.

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Technical Guidance

Scope

1. This guidance affects all federal entities that own buildings, facilities, ships, or other tangible property, plant, and equipment (PP&E) that contain any form of asbestos and present general purpose federal financial reports in conformance with generally accepted accounting principles, as defined by Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

Amendment of Technical Bulletin 2006-1

2. The effective date of the guidance on recognition and measurement of asbestos-related cleanup costs provided in par. 50 of Technical Bulletin 2006-1 is amended as follows:

This technical bulletin is effective for reporting periods beginning after September 30, ~~2011~~2012. Earlier adoption is encouraged.

Effective Date

3. This Technical Bulletin is effective upon its issuance.

The provisions of this Technical Bulletin need not be applied to immaterial items

Appendix A: Basis for Conclusions

The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the board's rules of procedure, as amended and restated through April 2004, and the procedures described in FASAB Technical Bulletin 2000-1, *Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

Background

- A1. On April 15, 2011, staff received a formal letter from the U.S. Department of the Interior (DOI or Interior), requesting that the board revisit Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, to consider permitting agencies to report the estimated asbestos-related cleanup liability in required supplementary information (RSI) for several fiscal years until more data becomes available to make a more reliable estimation for asbestos-related cleanup costs.

- A2. The request stated, "To comply with the requirements of [Statement of Federal Financial Accounting Standards (SFFAS)] 6 and [Technical Bulletin] 2006-1, the Department of the Interior (Interior) began compiling cost data related to the cleanup of friable and non-friable asbestos. To date, Interior has surveyed more than 3,000 buildings and structures at a cost of more than \$2.5 million. Interior owns approximately 160,000 buildings and structures. To estimate the total asbestos-related cleanup costs for this large inventory of real property, Interior has chosen the cost modeling approach based on existing survey data. The modeling approach, though the least costly of all methodologies, poses several problems for Interior. First, the cost factor developed based on existing surveys is not representative for all asset types. Actual surveys performed by Interior were primarily on buildings, and Interior owns more than 106,000 structures, for which little or no actual cleanup data is available. Second, although Federal Accounting Standards Advisory Board (FASAB) allows the use of information from industry-specific cost estimation publications or standardized costs factors developed for each state, there is little or no actual asbestos cleanup data available for certain asset groups. For example, there is no actual asbestos-related cleanup data available for monuments and other types of heritage assets owned by Interior."

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- A3. DOI's request went on to state, "In order to continue with this approach, Interior would need to perform a significant number of additional surveys for certain assets groups and this presents a major challenge. In light of current resource constraints, coupled with probable future budget cuts, the requirement to complete additional surveys would impose a significant financial hardship for Interior. We also need to consider the impact to our financial statements audit. Interior will likely face hurdles with our external auditors due to the inability to dedicate more resources to the performance of more surveys. Because of resources constraints, Interior may experience adverse action during the financial statement audit once [Technical Bulletin] 2006-1 becomes effective as written."
- A4. Members had an opportunity to ask representatives from DOI questions about its request at the April 28, 2011, board meeting during a separate discussion related to Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*. At that meeting, several of the board members agreed that they would like to have a status of what other agencies were doing before they made a decision on it.
- A5. In addition to obtaining more specific information on DOI's methodology and its facilities, staff performed the following research and outreach regarding reporting for asbestos-related liability costs following the April 28, 2011, FASAB meeting:
- a. Researched and reviewed how other federal agencies (entities that primarily apply standards issued by the nongovernmental Financial Accounting Standards Board (FASB) and early implementers of FASAB requirements) have reported asbestos-related liability costs;
 - b. Researched and reviewed how respondents to FASB Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations (now FASB Accounting Standards Codification (ASC) 410-20), *Asset Retirement Obligations*, and others, have reported asbestos-related liability costs;
 - c. Sent a poll on agency readiness for implementation of Technical Bulletin 2006-1 to Agriculture, Commerce, Defense, Energy, General Services Administration, Health and Human Services, Homeland Security, Housing and Urban Development, DOI, Justice, Labor, National Aeronautics and Space Administration, National Science Foundation, State, Transportation, Treasury, Veterans Affairs, the Financial Statement Audit Network listserv, and participants of the Accounting and Auditing Policy Committee Asbestos Subgroup;
 - d. Organized an agency roundtable on implementation of Technical Bulletin 2006-1 to provide an opportunity for the federal community to:

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- i. learn about others' experiences and methodology for estimating asbestos cleanup costs per the requirements of:
 - 1. FASAB SFFAS 6, *Accounting for Property, Plant, and Equipment, Chapter 4, Cleanup Costs*; and Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*; and,
 - 2. FASB ASC 410-20, *Asset Retirement Obligations*
 - ii. discuss best practices and issues surrounding the implementation of Technical Bulletin 2006-1; and,
- e. Actively sought participants that would be willing to share different methodologies and best practices related to reporting of asbestos-related liabilities at the roundtable.
- A6. Based on staff's research and outreach, the majority of agencies believe they have taken the steps necessary to implement Technical Bulletin 2006-1 for fiscal year 2012. However, of the agencies responding to staff's readiness poll, the three agencies that responded that they would not be ready for a 2012 implementation data, collectively own over 60% of the total number of buildings and over 49% of the total square footage reported on the fiscal year 2009 Federal Real Property Statistics Report.¹
- A7. At the June 22, 2011, meeting, staff briefed FASAB board members on the results of its research and outreach and answered questions related to DOI's request and staff's recommendation. A representative from DOI who was observing the meeting responded to members' questions about the current status of its efforts and plans for implementation.
- A8. DOI is actively working towards developing a reasonable estimate of their asbestos-related liabilities, but has formally requested a little more time to finalize it. In addition, several other agencies that collectively own over half of the federal real property are not yet prepared for a 2012 implementation. With the information shared at the June 2011 FASAB roundtable on implementation of Technical Bulletin 2006-1 and the expectation that the Chief Financial Officers (CFO) Council will lead an effort to coordinate implementation through the sharing of relevant data and experience, staff believes DOI and other federal agencies will be better positioned to more effectively implement the reporting requirements. The planned joint efforts will likely lead to more cost effective implementation as well as more comparable results. To allow time for such efforts, a fiscal year 2013 implementation date is needed.

¹ Available online at www.gsa.gov/graphics/ogp/FY2009_FRPR_Statistics.pdf; last accessed April 21, 2011.

A9. For those reasons, staff recommends that the effective date of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, be deferred for one additional year to enable DOI and other agencies to finalize their methodology and develop an estimate. Early implementation is strongly encouraged.

A10. In addition, to ensure that issues arising during the implementation effort are identified timely, staff plans to host an additional roundtable in early 2012.

Exposure Draft

A11. The exposure draft, *Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs*, was issued July 13, 2011, with comments requested by August 3, 2011. Upon release of the exposure draft, notices and press releases were provided to The Federal Register, *FASAB News*, *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*, The CFO Council, the Council of Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network, and, committees of professional associations generally commenting on exposure drafts in the past.

A12. To encourage responses, a reminder notice was provided to our Listserv on August 2, 2011.

Comment Letters

A13. Thirteen comment letters were received from the following sources:

| | FEDERAL (Internal) | NON-FEDERAL (External) |
|----------------------------------|-------------------------------|-----------------------------------|
| Users, academics, others | | 1 |
| Auditors | | |
| Preparers and financial managers | 12 | |

A14. The Board considered responses to the exposure draft at its August 24, 2011, meeting. Eleven of the 13 respondents were in favor of deferring the effective date. Two respondents did not comment on the proposal. Since there was no opposition to the deferral proposed in the ED, staff recommended that the proposal be issued as final.

A15. One respondent questioned whether there was a need for such a standard since there are vast differences between agencies and a “one size fits all” approach may not be the best one. The respondent suggested that FASAB consider deferring final implementation of Technical Bulletin 2006-1 until the ongoing efforts of FASAB and the CFO Council to

coordinate implementation of Technical Bulletin 2006-1 are complete. Staff believes deferring until the CFO Council coordinates could further delay implementation as other priorities arise. Staff recommends issuing the one-year deferral.

A16. Another respondent commented that, in order for an environmental liability (EL) to be present, there must be an existing law or regulation that requires cleanup. The respondent stated that, since asbestos is not currently required to be cleaned up until it becomes friable, non-friable asbestos is not an EL. The respondent asked for clarification and clear guidance on how non-friable asbestos could result in an EL. Staff notes that the Basis for Conclusions (BfC) of Technical Bulletin 2006-1 includes a discussion regarding why there is an accounting liability for cleanup of non-friable asbestos even though there is no EL for cleanup of asbestos until it becomes friable. The accounting liability is based on the FIN 47 (ASC 410-20) premise that "no building lasts forever." The difference between the two liabilities is further discussed in pars. A13 and A14 from the BfC in Technical Bulletin 2006-1:

A13. As noted in paragraph 5, asbestos-related cleanup costs includes cleanup costs related to both friable and nonfriable asbestos-containing material. Under the asbestos NESHAP [National Emissions Standards for Hazardous Air Pollutants], friable asbestos is currently required by law to be removed, contained, and properly disposed of in the context of a demolition or renovation of a covered facility. There is no immediate requirement for the federal government to remove nonfriable asbestos in good condition that is not currently posing a health threat. However, the future repair, removal, renovation, demolition or other disturbance of asbestos-containing material may cause the asbestos to become friable and, because of limitation on the life of PP&E other than land, it is inevitable that these actions will occur. Thus, the event triggering the liability is the existence of asbestos in federal property, plant, and equipment, not a legal requirement to remove, contain, or dispose of the asbestos. Therefore, the accounting treatment for asbestos provided for in this technical bulletin is based on the best estimate of the costs that will be incurred in the future for removal, containment, or disposal of asbestos that exists in federal property, plant, and equipment as of the reporting date. The ability of the federal government to sell the federal property, plant, and equipment or otherwise dispose of it in the future without incurring any asbestos-related cleanup costs may affect measurement of the liability but does not negate the existence of the liability as of the reporting date.

A14. It is important to note that the requirement to estimate a liability for asbestos-related cleanup costs and the requirement to actually perform asbestos-related cleanup are two completely separate requirements. It is not within the scope or the intent of accounting standard-setters to establish what asbestos-related cleanup will be required and when. This must be determined by reference to applicable law. Furthermore, this technical bulletin does not intend to imply that recognizing a liability for asbestos-related cleanup costs in any way reflects a judgment about the legal obligation of the federal government for asbestos-related cleanup. The purpose of this technical bulletin is to provide guidance that will result in the more consistent and timely recognition of an accounting liability.

A17. Another respondent noted overall agreement with the one-year deferral but stated that the Board should adopt DOI's request that the information be reported as RSI in addition to the one-year deferral. This suggestion cannot be adopted through a technical bulletin since it would require an amendment to an existing Statement of Federal Financial Accounting Standards.

A18. The Board has reviewed this Technical Bulletin, and a majority of its members do not object to its issuance.

Appendix B: Abbreviations

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| AGA | Association of Government Accountants |
| ASC | Accounting Standards Codification |
| BfC | Basis for Conclusions |
| CFO | Chief Financial Officers |
| CPA | Certified Public Accountants |
| DOI | U.S. Department of the Interior |
| EL | Environmental Liability |
| FASAB | Federal Accounting Standards Advisory Board |
| FASB | Financial Accounting Standards Board |
| FIN | FASB Interpretation Number |
| NESHAP | National Emissions Standards for Hazardous Air Pollutants |
| PP&E | Property, Plant, and Equipment |
| RSI | Required Supplementary Information |
| SFFAS | Statement of Federal Financial Accounting Standards |