

# FIN 47 Already Having Major Effects



By Greg Rogers

Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for

Conditional Asset Retirement Obligations (FIN 47):

- Requires companies to identify all so-called "asset retirement obligations" (AROs).
- Clarifies that companies are required to recognize a liability for the fair value of a conditional ARO (e.g., a legal obligation triggered by retirement of an asset where there is no legal obligation to retire the asset) if the fair value of the liability can be reasonably estimated.
- Explains when an entity would have sufficient information to reasonably estimate the fair value of an ARO.

Many observers, including myself, interpreted that FIN 47 would not be applicable until 2006 for calendar-year companies. The major public account-

ing firms, however, have concluded that calendar-year companies must apply FIN 47 in their 2005 year-end financial statements.

In recent weeks, several major corporations have reported the cumulative after-tax effect of adopting FIN 47 on net income, including Citibank (\$49 million), IBM (\$36 million), Pfizer (\$25 million) and Alltel (\$7.4 million). Other companies are scrambling to identify and estimate their AROs before issuing their year-end financial statements.

## What about Brownfields?

As law and accounting firms turn their attention to the complex issues raised by FIN 47, these are likely to be the big questions for brownfields:

- Will companies be required to develop a complete inventory of their non-productive real estate?
- What degree of due diligence will be required to identify environmental conditions associated with a

company's properties? For example, will accounting firms require environmental site assessments of all owned and leased properties?

- Will companies be required to test for reasonably suspected soil and groundwater contamination? For example, if a company has a Phase I environmental site assessment that recommends subsurface testing to further evaluate a recognized environmental condition, does FIN 47 obligate the company to conduct such investigation?
- If the company refuses to "drill holes" in order to confirm or refute the existence of contamination, must it record an ARO for the reasonable worst-case-scenario clean-up costs?
- Will law firms find that federal and/or state cleanup laws impose "legal obligations associated with the retirement" of idled and abandoned facilities? For example, will law firms conclude that CERCLA or similar state Superfund laws impose an affirmative legal obligation on the property owner to clean up contaminated sites?

Uncertainty around these questions is likely to continue for several months, if not years, as companies, auditors, and lawyers seek to develop standard policies and practices that will satisfy FASB reporting requirements and Sarbanes-Oxley.

Until the dust settles, one can expect to see broad inconsistency in the application of FIN 47 to brownfields, with some companies becoming fully transparent and others keeping their heads buried deep in the sand. Ultimately, how accounting firms and law firms deal with this uncertainty and its attendant risks will determine the extent to which FIN 47 will drive the cleanup, transfer and redevelopment of corporate brownfield sites. **BFN**

Greg Rogers, JD, CPA, is founder of Advanced Environmental Solutions in Dallas.

**LANGAN**

Design, Engineering and Environmental Solutions for

**Brownfield Revitalization**

**LANGAN**  
ENGINEERING & ENVIRONMENTAL SERVICES

[www.langan.com](http://www.langan.com)

New Jersey New York Pennsylvania Connecticut Florida Nevada