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Standard Guide for Disclosure of Environmental Liabilities[1]

This standard is issued under the fixed designation E2173; the number immediately following the designation indicates the year of original adoption or, in the case of revision, the year of last revision. A number in parentheses indicates the year of last reapproval. A superscript epsilon (ε) indicates an editorial change since the last revision or reapproval.

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 in the United States for environmental liability disclosures accompanying audited and unaudited *financial statements*. This guide is consistent with Generally Accepted Accounting Principles (*GAAP*)[2] issued by *Financial Accounting Standards Board* (*FASB*), as well as related statements, rules, regulations, and/or procedures issued by *Government Accounting Standards Board* (*GASB*), *Public Company Accounting Oversight Board* (*PCAOB*), Securities and Exchange Commission (SEC), and *Federal Accounting Standards Advisory Board* (*FASAB*). This guide is intended to be consistent with national and multinational issuers of accounting standards and practices, including *International Accounting Standards Board* (*IASB*).

1.2 *Objectives*—The objectives of this guide are to:

1.2.1 Identify the common terminology used in environmental disclosures,

1.2.2 Explain the need for environmental disclosures,

1.2.3 Define the conditions warranting disclosure, and

1.2.4 Illustrate the report formats and content typically used in environmental disclosures.

1.3 *History of development of this guide*—In 1993-1994, a group of insurance companies approached ASTM to request a best practice environmental cost estimation and disclosure standard, as they were experiencing high environmental remediation and asbestos claims from policyholders that were reporting no material liabilities in their annual reports. At the same time, asbestos and environmental liabilities were triggering bankruptcy more frequently, again with little prior disclosure by companies other than boilerplate legal language that costs were too uncertain or not estimable, or that such costs would not be material. Research by the ASTM standard working committee at the time found such shortcomings as *(a)* rarely attempting to identify a full portfolio of potential liabilities, *(b)* dividing liabilities into separate sites or claims to avoid aggregated material outcomes that would require disclosure, and *(c)* relying on "known minimum costs" or "no estimate" to forecast liabilities. This disclosure standard (E2173), initially developed over a seven-year period with its first approval in 2001, was created to cure these shortcomings by providing guidance for best practice disclosure, including aggregation of liabilities before conducting a materiality test, as well as disclosure of the major assumptions and evaluations underlying the disclosure. The companion referenced cost estimation standard (E2137, which was split into a separate standard due to its broader applicability beyond disclosure purposes) provided guidance on a hierarchy of cost estimation methodologies that explicitly address uncertainty and recommend alternative methodologies. Both E2137 and E2173 have been revised over time to reference and incorporate applicable elements of new accounting standards and regulations, consider applicable case law, and incorporate new best-practice examples and years of additional experience with cost estimation and disclosure.

1.4 *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:*[3]

E1527 Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process

E2091 Guide for Use of Activity and Use Limitations, Including Institutional and Engineering Controls

E2137 Guide for Estimating Monetary Costs and Liabilities for Environmental Matters

E2718 Guide for Financial Disclosures Attributed to Climate Change

[1] This guide 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] This guide alone does not satisfy or include all disclosure requirements under GAAP, SEC, IASB, or any other agency or regulatory body. Appendix X1 provides some examples of where such requirements are contained.

[3] 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.

E3123 Guide for Recognition and Derecognition of Environmental Liabilities
E3228 Guide for Environmental Knowledge Management

2.2 *FASB Standard:*[4]

Statement of Financial Accounting Concepts No. 8 "Conceptual Framework for Financial Reporting", September 2010

2.3 *IFRS Standard:*[5]

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

3. Terminology

3.1 *Definitions of Terms Specific to This Standard:*

3.1.1 *accretion, n*—increase to the present value of a liability solely because of the passage of time, normally a year; also "unwinding the discount."

3.1.2 *activity and use limitations (AUL), n*—legal or physical restrictions on the use of, or access to, a site or facility to eliminate or minimize potential exposures to chemicals of concern or 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 (see Guide E2091).

3.1.2.1 *Discussion*—These legally enforceable obligations are intended to prevent adverse impacts to human or ecological receptors that may be exposed to residual chemicals of concern at an environmentally-impaired property.

3.1.3 *asset impairment, n*—an accounting revaluation which closes or eliminates any financial gap between the current market value and the book value of a specific asset.

3.1.3.1 *Discussion*—Example: an entity plans to sell an underutilized oil pipeline which is also undergoing spill cleanup work; assuming the pipeline's book value is $10 and will undergo $1 in spill cleanup work, the entity will decide whether to adjust the $10 book value ("book an asset impairment") *prior* to an asset's sale and independent of the liability valuation for the spill cleanup work.

3.1.4 *asset retirement obligation (ARO), n*—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.

3.1.4.1 *Discussion*—Activities include, but are not limited to, demolition, decommissioning, decontamination, reclamation, restoration, and abandonment.

3.1.5 *claim, n*—demand for payment or compensation.

3.1.6 *commitment, n*—type of liability covering purchase obligations that serve to mitigate environmental liabilities.

3.1.6.1 *Discussion*—An example is an entity continuing a property lease obligation indefinitely to defer a remediation or *asset retirement obligation* due at the end of the lease. See ASC 440.

3.1.7 *Comprehensive Environmental Response, Compensation and Liability Act of 1980 (as amended, 42 USC Section 9601 et seq.), CERCLA, n*—also known as "Superfund," a major U.S. Federal environmental law establishing key legal concepts of environmental costs and liabilities.

3.1.8 *Comprehensive Environmental Response, Compensation and Liability Information System, CERCLIS, n*—list of sites compiled by the *EPA* that the *EPA* has investigated or is currently investigating for potential hazardous substance contamination for possible inclusion on the *National Priorities List*; succeeded by *SEMS*.

3.1.9 *constructive obligation, n*—concept that past practice and/or public statements create a valid expectation on the part of a third party.

3.1.9.1 *Discussion*—An example is a company policy to excavate all underground storage tanks once removed from service. See IAS 37:10.

3.1.10 *contingency, n*—type of liability dependent on the outcome of one or more events.

3.1.10.1 *Discussion*—An example is multiparty *CERCLA* liability lacking an allocation among *PRP*s. In 1975, FASB identified environmental liabilities as "contingencies", but FASB has since published definitions for asset retirement obligations, environmental (remediation) obligations, commitments and guarantees. See ASC 450.

3.1.11 *counterparty risk, n*—entity's exposure to the non-performance risk of default by one or more *PRP*s that share a legal or *constructive obligation* in environmental costs and risks; alternatively, one *PRP*'s financial exposure to any other *PRP* on the same environmental cost or risk, especially where another *PRP* bears responsibility to perform, *guarantee*, or indemnify another.

3.1.11.1 *Discussion*—Also refers to the ability to pay and long-term creditworthiness. (ASC 410-30-30-7, ASC 820-10-35-17/18, GASB 72:62, IFRS 13:42, UK FRS 102:21.9, SOP 96-1 6.20—See Appendix X1)

3.1.12 *current government environmental record source, n*—any environmental record source available from a government or commercial entity, provided the record is updated in accordance with the update requirement of Practice E1527.

3.1.13 *engineering controls, EC, n*—physical modifications to a *site* or facility (for example, capping, slurry walls, or point of use water treatment) to reduce or eliminate the potential for exposure to chemicals of concern or petroleum products in the soil or ground water on the property.

3.1.13.1 *Discussion*—*Engineering controls* are a subset of activity and use limitations.

3.1.14 *EnviroFacts, n*—EPA database search tool that accesses over 20 current and historical environmental record sources, including *CERCLIS* and *RCRAInfo*.

3.1.15 *environmental liabilities, n*—asset retirement obligations, accrued liabilities, commitments, contingencies, and guarantees associated with any natural conditions or manmade incidents, including terrorism, that pose an unacceptable risk to health, safety, property, or the environment that

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

[5] Available from IFRS Foundation Columbus Building 7 Westferry Circus Canary Wharf London E14 4HD UK. https://www.ifrs.org/