

AUGUST 2016

POST-IMPLEMENTATION REVIEW REPORT

*GASB Statement No. 49, Accounting and
Financial Reporting for Pollution
Remediation Obligations*

*(Codified in Codification of Governmental Accounting and
Financial Reporting Standards, Section P40)*



401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856-5116
T: 203.847.0700 | F: 203.849.9714
www.accountingfoundation.org

August 23, 2016

The accompanying *Post-Implementation Review Report* on GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (Statement 49), summarizes the FAF's post-implementation review (PIR or Review) team's research results and conclusions (collectively, Findings), from its Review of Statement 49. The PIR process is an important part of our FASB and GASB standard-setting oversight responsibilities. Our oversight objectives are to improve the standard-setting process, in part, through a robust, independent, and credible PIR process.

The PIR team's review accomplishes the objectives we set out for the PIR process to: (1) determine whether Statement 49 is accomplishing its stated purpose, (2) evaluate implementation and continuing application costs and related benefits of Statement 49, and (3) provide recommendations to improve the GASB's standard-setting process. To maintain the GASB's standard-setting independence, the PIR team does not recommend standard-setting actions for the GASB.

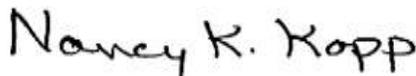
We have reviewed the Statement 49 Review team's procedures and the accompanying Statement 49 Report. We believe that they performed a robust, independent, and credible review of Statement 49. The team's summarized conclusions, with which we concur, are included in the "Summary" section of the Report.

The Statement 49 Report addresses the technical, operational, and cost-effectiveness aspects of Statement 49. The GASB has reviewed the Statement 49 Report and the PIR team's detailed Findings. The GASB's response to the matters discussed in the Report and Findings will be posted to the FAF PIR webpage when this Report is posted.

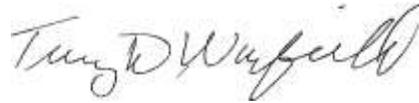
We would like to thank all of the individuals and organizations that provided input on Statement 49.

We welcome your input on our PIR process at presidentsdesk@f-a-f.org.

Sincerely,



Nancy K. Kopp
Co-Chair
Standard-Setting Process Oversight Committee
FAF Board of Trustees



Terry D. Warfield
Co-Chair
Standard-Setting Process Oversight Committee
FAF Board of Trustees

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SUMMARY

In 2010, the Trustees implemented a post-implementation review (PIR or Review) process as part of their FASB and GASB oversight responsibilities. The Trustees' objectives for these Reviews are to determine whether a standard is accomplishing its stated purpose, evaluate its implementation and continuing compliance costs and related benefits, and provide recommendations to improve the standard-setting process.

Much of our (the PIR team) research involves getting stakeholder views on the standards under review. Given stakeholder diversity, seldom will stakeholders have unanimous views on whether any standard or its provisions are effective. We reached the following overall conclusions using our judgment, considering all the input received, and striving to be objective and balanced:

- Statement 49 resolved the primary issues underlying its stated need. In particular, it achieved the objective of reporting pollution remediation obligations that is more consistent, timely, and complete.
- Statement 49 provides creditors and other users of financial statements with decision-useful information. Users of financial statements incorporate information about pollution remediation liabilities in their analyses when pollution remediation obligation amounts are significant. For most governments, however, pollution remediation obligation amounts are not significant.
- Statement 49 is operational because it is understandable, can be applied as intended, and enables information about pollution remediation obligations to be reported reliably. The measurement of a pollution remediation liability requires judgment as with any other accounting estimate.
- The changes made to financial and operating practices as a result of Statement 49 are not significant or unexpected.
- There were no significant unanticipated consequences as a result of the adoption of Statement 49.
- Overall, implementation and ongoing application costs associated with Statement 49 were not significant and were consistent with the GASB's expectations.
- Statement 49 achieved its expected benefits.

Finally, no standard-setting process recommendations resulted from our research.

GLOSSARY OF ACRONYMS AND TERMS

FAF: Financial Accounting Foundation

GASB: Governmental Accounting Standards Board (or Board)

Oversight Committee: FAF Trustees' Standard-Setting Process Oversight Committee

PIR: Post-implementation review

PRP: Potentially responsible party

PRO: Pollution remediation obligation

Review: Post-implementation review

Statement 49: GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (codified in Codification of Governmental Accounting and Financial Reporting Standards, Section P40)

Trustees: FAF Board of Trustees

Users: Users of information in financial statements, such as legislators, municipal bond insurers, buy- and sell-side analysts, rating agencies, bond holders, citizen and taxpayer groups, community organizations, and research institutes

POST-IMPLEMENTATION REVIEW REPORT

PIR OBJECTIVES AND PROCEDURES

The three primary PIR objectives are to: (1) determine whether a standard is accomplishing its stated purpose, (2) evaluate its implementation and continuing compliance costs and related benefits, and (3) provide feedback to improve the standard-setting process (as opposed to recommending standard-setting actions). We divide the first objective further to determine whether:

- The standard resolved the issues underlying its need.
- Decision-useful information is being reported to, and being used by, financial statement users.
- The standard is operational.
- Any significant unexpected changes to financial reporting or operating practices resulted from implementing the standard.
- Any significant unanticipated consequences resulted from applying the standard.

Our criteria and procedures for reviewing selected accounting standards are described and posted on the FAF website ([PIR Process Description](#)). Generally, we will review significant standards that the GASB currently is not reassessing. Our procedures include reviewing the GASB's project files (particularly the on-topic documents issued by the GASB), reviewing industry and user publications, reviewing financial statements (including note disclosures), and obtaining feedback from stakeholders with experience either applying the standard or evaluating its information.

Our primary means of gathering information to be used in forming our conclusions on Statements 49 was talking with a diverse group of GASB stakeholders (auditors, preparers, and users), collectively referred to as our Statement 49 PIR resource group. This group included:

- Thirteen preparers of financial statements—comprised of representatives from ten general-purpose governments (state and local), one port government, one preparer consulting firm, and one professional association
- Nine auditors of financial statements—comprised of representatives from six public accounting firms (local and regional), as well as representatives from three state auditors
- One user of financial statements—comprised of representatives from one major credit rating agency. The representatives we spoke to follow public power and municipal water and sewer governments.

Five academics were contacted but they did not have comments on Statement 49 and could not refer us to other academics who might have an interest in PROs.

We focused our research on achieving the PIR objectives, and we evaluated our various research inputs to establish whether there were consistent views. We note that stakeholders expressed consistent views despite having different backgrounds in terms of government type (preparers) or firm size (auditors). As a result, we did not use surveys in our Statement 49 PIR research.

Our research observations are indications of stakeholders' views and do not constitute statistically valid inferences. We reached our conclusions using our judgment, considering all the input received, and striving to be objective and balanced.

After completing our research, we compiled our procedures, research results, and conclusions into our Findings. We reviewed our Findings with the FAF president and chief executive officer, GASB chair, and Oversight Committee members. We considered their views on our preliminary conclusions and recommendations when drafting this PIR report that summarizes the content of our Findings. We reviewed a draft of this Report with the Oversight Committee and the Trustees. After the Trustees' acceptance of the Report, we posted this PIR Report to the FAF website.

BACKGROUND ON STATEMENT 49

Statement 49 was issued in November 2006 to provide specific accounting and reporting guidance for PROs. Statement 49 defines PROs as obligations incurred by a government in performing remediation activities to address the current or potential detrimental effects of existing pollution. Pollution prevention and control activities are not in the scope of Statement 49 unless they are part of a pollution remediation effort, because the purpose of those activities is not to remediate existing pollution.

Statement 49 requires that a government estimate and recognize pollution remediation outlays once any of the following five obligating events occurs:

- The government is compelled to take pollution remediation action because of imminent endangerment.
- The government violates a pollution prevention related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation activities.
- The government commences or legally obligates itself to commence pollution remediation activities.

Pollution remediation activities generally result in the extinguishment of an obligation rather than the creation of a future benefit. As a result, pollution remediation outlays are generally expensed. However, Statement 49 includes criteria that allow for the capitalization of pollution remediation outlays when they are incurred to:

- Prepare the property in anticipation of a sale.
- Prepare the property for use when the property was acquired with known or suspected pollution that was expected to be remediated.
- Perform remediation that restores a pollution-caused impairment of an asset.
- Acquire property, plant, and equipment that have a future alternative use beyond the remediation effort.

Statement 49 measures pollution remediation liabilities using the expected cash flow technique according to which the PRO liability is the sum of probability-weighted amounts in a range of possible estimated amounts. This technique accounts for all expectations of possible cash flows resulting from the performance of pollution remediation activities.

Statement 49 provides that governments should include in the measure of their pollution remediation liabilities all remediation work that they expect to perform together with the work that they expect to perform on behalf of PRPs. Amounts expected to be recovered from other PRPs with the expected insurance recoveries reduce the expense and the liability if the amounts are not yet realized or realizable. When the recovery amounts become realized or realizable, these amounts create a recovery asset and increase the pollution remediation liability by the equal amount.

PIR OBJECTIVE 1: DID STATEMENT 49 ACCOMPLISH ITS STATED PURPOSE?

Did Statement 49 Resolve the Issues Underlying the Need for the Standard?

The GASB's objectives (the underlying need) in issuing Statement 49 were:

- More timely and complete reporting of PROs, and
- Consistent reporting of PROs by all governments.

Nearly all resource group members agreed that the application of Statement 49 results in more timely and complete reporting of PROs. The remaining members noted that there is some inconsistency in the reporting of PROs because of varying reporting and disclosure thresholds and the fact that PROs are estimates that require the use of judgment. We believe that Statement 49 increased the consistency of reporting. Thus, based on our research, we conclude that, overall, Statement 49 resolved the primary issues underlying its stated need.

Does Statement 49 Provide Decision-Useful Information?

We researched whether Statement 49 provides users of financial statements with decision-useful information. We also researched whether preparers received questions from financial statement users about the information reported on PROs. We consulted with preparers as an indirect way of evaluating users' interest in this information.

We contacted more than 30 users of financial statements to obtain feedback on PRO information but received only one confirmation for an interview. Approximately half of the users that we contacted declined to be interviewed, generally because of their lack of experience with analyzing information reported on PROs. We believe that users' lack of familiarity with PRO information is attributable to PRO balances generally being not significant. That is, our review of financial statements of all state governments and of a selection of local governments indicated that PRO liabilities tended to be small compared to other liabilities, such as pension liabilities.

The one user that provided feedback on Statement 49 indicated that when PROs are significant, the information is reviewed and used as a flag for obtaining additional details from management on how the government plans to fund the liability.

Several preparers explained that during the first year of implementation of Statement 49 they received few questions on how their respective government planned to fund the PRO liability.

Based on our research, we conclude that when PRO amounts are significant, users of financial statements incorporate information about pollution remediation liabilities in their analyses and, therefore, information about PROs is decision-useful for users of financial statements. We also believe that the information provided by Statement 49 indicates that for most governments PROs are not significant which is itself decision-useful information.

Is Statement 49 Operational?

The third area that we researched is whether Statement 49 is operational. For PIR purposes, operability addresses preparers' and auditors' views on whether the standard is understandable, can be applied as intended, and enables information about PROs to be reported reliably.

Nearly all preparers and auditors that we spoke to asserted that Statement 49 is understandable and can be applied as intended. However, some preparers and auditors were cautious on concluding that Statement 49 provides reliable information because they observed that:

- PRO liabilities are based on estimates that might be volatile over time, mainly due to price fluctuations.
- Unlike many GASB Statements, the data used in the development of the estimates are generally obtained from non-accountants and, in their view, this increases the potential for inaccuracies in reporting.

One preparer and several auditors observed that some information on PROs might be sensitive or confidential in nature because, for example, it might relate to ongoing litigation. A government's legal counsel might attempt to limit the level of disclosures surrounding PRO activities, making the process to accurately report, disclose, and audit the underlying information more difficult.

We also learned that some governments sometimes struggle with the determination of whether they have met any of the obligating events and that application of the expected cash flow technique can be challenging for projects that span long periods.

Based on our research, we conclude that, overall, Statement 49 is operational. We note that the measurement of a pollution remediation liability requires judgment as with any other accounting estimate. We believe that an obligation that is difficult to measure should not be a barrier to a government making an informed estimate about future costs.

Did Statement 49 Result in Significant Unexpected Changes in Financial Reporting or Operating Practices?

Based on our discussions with resource group members and related research, we conclude that no significant unexpected changes resulted from the issuance of Statement 49.

Did Statement 49 Result in Significant Unanticipated Consequences?

Similarly, based on our discussions with resource group members and related research, we conclude that no significant unanticipated consequences resulted from the adoption of Statement 49.

PIR OBJECTIVE 2: STATEMENT 49 COSTS AND BENEFITS

Are the Implementation and Continuing Application Costs of Statement 49 Consistent with the Costs the GASB Considered?

The GASB expected governments to incur some initial costs to develop procedures to collect relevant data and measure the liability. Ongoing costs were not expected to be significant.

Approximately half of the preparers and auditors that we spoke to commented that initial implementation costs were not significant. However, some preparers and auditors asserted that significant costs were incurred because of the need to engage specialists that assisted with the measurement of the liability.

We learned that continuing application costs are not significant.

Based on this feedback, we conclude that, overall, the implementation and continuing application costs of Statement 49 were not significant and were consistent with the GASB's expectations.

Are the Benefits of Statement 49 Consistent with the Benefits the GASB Intended?

The benefits that the GASB sought to achieve with the issuance of Statement 49 were to ensure consistent, timelier, and complete reportings of PROs by all governments.

Based on this feedback, we conclude that Statement 49 achieved its expected benefits. In addition, we learned that the reporting of PROs became more transparent.

PIR OBJECTIVE 3: STANDARD-SETTING PROCESS IMPROVEMENTS

Our third PIR objective is to provide feedback to improve the standard-setting process.

To meet that objective we asked stakeholders participating in our Review if they had any concerns with the standard-setting process that the GASB used to develop Statement 49. Most of these stakeholders expressed no concern with the GASB's standard-setting process specific to Statement 49.

Our research indicates that the GASB conducted thorough outreach activities with preparers, practitioners, and users of financial statements on the provisions included in Statement 49 through the establishment of a project advisory group in 2003, the issuance of a Preliminary Views document in 2005, holding a public hearing in 2005, and the issuance of an Exposure Draft in 2006.

As a result, we have no standard-setting process recommendations.

Statement 49 Post-Implementation Review Team:

Randy Finden, FAF Senior Project Manager

Chiara Gilioli, FAF Assistant Project Manager

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