Via E-Mail

June 27, 2025

Technical Director
File Reference No. 2025-ITC100
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

Re: **FASB Invitation to Comment**

Dear Sir/Madam:

We are writing in response to the Board's January 3, 2025 Invitation to Comment (ITC), which seeks feedback on areas where US Generally Accepted Accounting Principles (GAAP) could be improved. We appreciate the Board's efforts to enhance GAAP and look forward to engaging in a dialogue on significant financial accounting and reporting matters.

Our response focuses on Question 31 of the ITC, which states: "Should the FASB revisit the initial recognition and measurement guidance for AROs (in Subtopic 410-20)? If so, please explain, including what recognition criteria should be considered and how an ARO should be measured (such as expected cost, fair value, or another measure)."

As we discuss below, investors believe there exists a lack of transparency being provided about Asset Retirement Obligations (AROs). Companies' financial statements fail to provide financially material information needed to assess the scale of such obligations that will ultimately require funding and their impact on companies' reported financial condition and profitability. This lack of information is important given the impact of ARO provisions on related financial statement elements, including asset valuation (and potential impairment charges), useful life/units of production estimates (and corresponding depreciation or depletion expense), and interest expense (accretion) associated with discounting the liability.

To better understand this gap, Ceres hosted a roundtable in June of last year with key stakeholders, including investors, auditors, credit rating agencies, and think tanks. The purpose of this roundtable was to gather input from various stakeholder groups on whether, and how, the FASB should reconsider GAAP guidance to more accurately reflect financially material risks in audited financial statements. The 1.5 hours discussion, with 15 participants, largely focused on two key issues that contribute to limited or lack of transparency in companies' financial reports:

1. **Lack of disclosure and potential understatement of balance sheet liabilities**: Insufficient transparency around key assumptions—such as estimated costs to meet the obligations, the timing of activities to meet them, and inflation and discount rates—raises concerns that the liabilities (provisions) for AROs may be understated and that investors

lack the necessary information to assess the accuracy of these obligations and make informed decisions.

2. **Off-balance sheet liabilities—the frequent non-recognition of AROs for certain assets on the balance sheet**: The failure of companies to recognize AROs in circumstances where such recognition would seem to be required by GAAP, often accompanied by very little disclosure, means that investors lack the information to consider the relevance of existing obligations that will eventually become recognized and due.

This submission from Ceres, Carbon Tracker, and the Climate Accounting and Audit Project responds to Question 31 of the ITC by exploring these issues and providing recommendations.

While our response focuses on Question 31, we also note the importance of Question 4 in the ITC, which invites feedback on other financial accounting and reporting topics not explicitly listed. In particular, we wish to highlight the request by investors for greater transparency around the quantitative forward-looking assumptions and estimates ("inputs") that materially impact financial statements. Investors often rely on inputs used in determining the financial statement amounts such as commodity price assumptions, discount rates, projected costs, and timing assumptions to assess future cash flows and risk. However, despite existing requirements under GAAP, companies frequently provide only limited or qualitative descriptions of these assumptions. This lack of specificity undermines key financial reporting objectives, including comparability, verifiability, and understandability. This concern was raised in a 2024 investor letter[1] to the SEC (with a copy to FASB) from over 40 global investors representing $3.75 trillion in assets. While we do not address this topic here except in the context of AROs, we strongly support the investor perspective and encourage the FASB to prioritize improvements to the broader disclosure of critical assumptions and estimates in future standard setting.

Background on Signatories

This response focuses on the interests of investors as raised in the Ceres roundtable and through the work of the following three organizations on behalf of investors.

Ceres is a nonprofit advocacy organization working to accelerate the transition to a cleaner, more just, and resilient economy. The Ceres Investor Network draws on decades of experience and expertise to support institutional investors in managing financial sustainability issues critical to protecting portfolio value while seizing opportunities in this transition. Our voluntary membership network includes many of the largest asset managers and asset owners in the United States (US).

Carbon Tracker is an independent financial think tank that carries out in-depth analysis on the impact of the energy transition on capital markets and the potential investment in high-cost, carbon-intensive fossil fuels. Its team of financial market, energy, accounting and legal experts

[1]Sarasin & Partners, "Re: Inadequate critical accounting assumption disclosures", October 14, 2024, available at: https://sarasinandpartners.com/wp-content/uploads/2024/10/Letter-to-SEC-on-critical-assumptions-14-Oct-2024-Final.pdf

apply groundbreaking research using leading industry databases to map both risk and opportunity for investors on the path to a low-carbon future.

Climate Accounting and Audit Project (CAAP) is a group of accounting and finance experts which is working with investors to ensure the requirements of accounting and audit standard setters (in particular, the guidance relating to climate risk) are followed, and hence material climate risks are considered and are given appropriate transparency in company financial statements and the associated audit reports.

Why Investors are Concerned about AROs

AROs are legal obligations associated with the retirement of long-lived assets that "result from the acquisition, construction, or development and (or) the normal operation"[2] of those assets. Laws and regulations in many jurisdictions impose legal obligations on owners and operators of assets to safely decommission them at the end of their economic useful lives and then remediate any residual environmental impacts.

AROs can be significant for capital-intensive companies that own large productive assets. Of particular interest to the institutional investors with whom we work are AROs in the oil and gas sector, as they have the potential for the largest financial impact. In addition, investors have indicated interest in other sectors where AROs may be substantial, including mining, utilities, nuclear energy and industrial sectors such as cement and chemicals.

One asset manager described the need for greater transparency and disclosure around AROs as urgent to evaluating long-term risks and economic viability, stating, "Clarity on climate accounting is urgently needed to identify the costs associated with the impact of the energy transition–particularly for critical sectors such as oil and gas which will be central to delivering net zero. "[3]

Another asset manager noted that some oil and gas companies, particularly outside of the US, have made some needed disclosures but more must be done, stating: "Oil and gas companies such as Shell have taken critical first steps to recognize the impact of the energy transition on their decommissioning and restoration assumptions . . . not only will this type of disclosure provide investors with decision-useful information but attract additional investment to companies who provide this level of transparency. "[4]

The Transparency and Disclosure Gap

Financial information about AROs is largely lacking in audited financial statements found in SEC filings of US energy companies. The following chart—excerpted from the 2024 investor letter to the SEC mentioned earlier and based on information furnished by Carbon Tracker—illustrates this gap

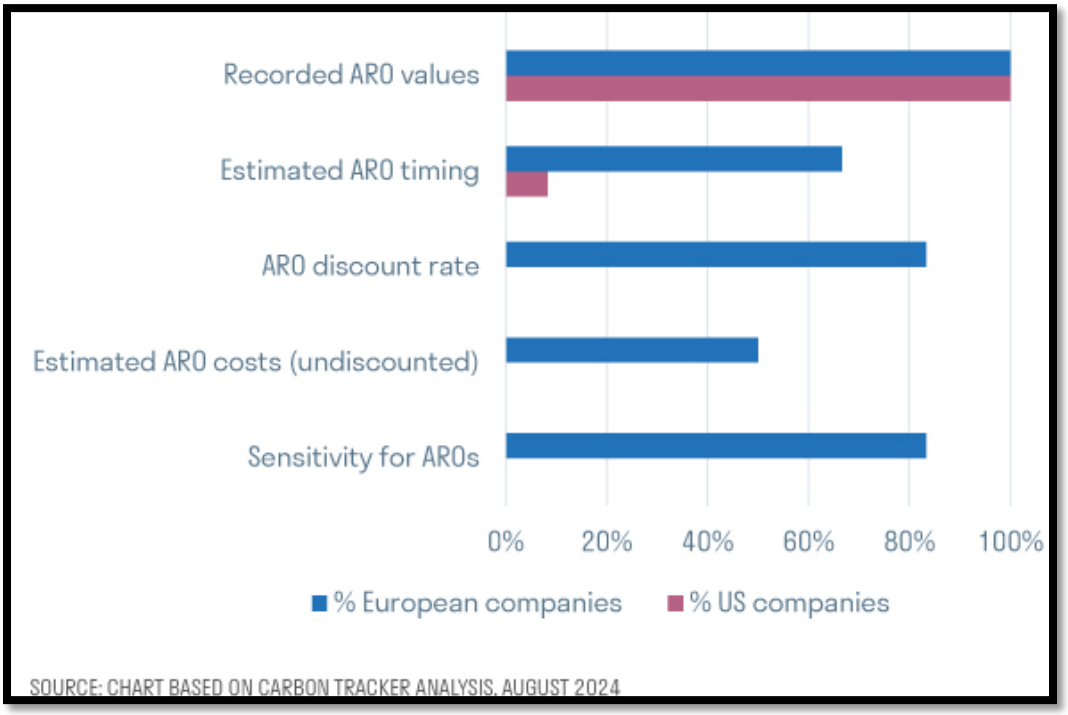
[2] FASB Accounting Standards Codification 410-20-15-2

[3] Climate Action 100+, "2023 Proxy Season: Climate Accounting and Asset Retirement Obligations", April 20, 2023. Available at: https://www.climateaction100.org/news/2023-proxy-season-climate-accounting-and-asset-retirement-obligations/

[4] Ibid

and highlights how European energy companies tend to provide more comprehensive information about their provisions for AROs than do US companies.

Percentage of US and European Energy Companies Reviewed[5] Providing Quantitative Assumptions Related to ARO Provisions in Annual Filings for 2023



AROs represent a financially material liability for oil and gas companies. These obligations already total substantial amounts on company balance sheets and reflect long-term financial responsibilities that will ultimately require funding. And yet it is clear that substantial amounts are still unrecorded. As economies shift toward lower-carbon energy sources, this burden is expected to grow, with some assets likely to be retired earlier than originally estimated due to the energy transition—further underscoring the importance of robust recognition, measurement and disclosure.

A 2023 report by Sustainable Fitch explained that "As energy systems shift away from fossil fuels in the coming decades, the scale of retirements is likely to increase significantly, posing considerable financial, logistical and environmental challenges." The report noted that the cumulative

[5] For the analysis, 13 energy companies were reviewed. Companies covered in analysis include seven US energy companies (Occidental Petroleum, Exxon Mobil, Chevron, ConocoPhillips, Marathon Petroleum, Phillips 66, and Valero Energy), and six European energy companies (bp, Shell, Eni, Repsol, TotalEnergies, Equinor)

decommissioning costs for the oil and gas industry were projected to reach $42 billion by 2024, with estimates continually adjusting.[6]

Carbon Tracker's research has found that these costs are actually much greater.[7] This research estimates that oil and gas decommissioning costs (including wells, offshore infrastructure, pipelines and refineries) in the US could exceed $1.2 trillion, and total global costs could be four times as large. The costs associated with plugging 2.6 million documented onshore wells represent a major logistical and financial challenge—a substantial yet often hidden or unclear liability that could have material financial implications for companies and their investors.

Concerns have been raised by industry analysts[8] that companies may be unable to fund their ARO obligations when they become due, creating the potential for significant underfunding. S&P Global Ratings has already cited AROs as a factor in recent credit downgrades[9]. These dynamics underscore the need for more accurate and comprehensive disclosures related to AROs in financial reporting.

While AROs for upstream assets (e.g., wells) are generally recognized on company balance sheets, there is limited visibility into the assumptions and estimates that underpin the present value calculation of these obligations. AROs tied to midstream assets (e.g., pipelines) and downstream assets (e.g., refineries) are often excluded from the balance sheet. Instead, they are typically classified as off-balance sheet liabilities due to stated uncertainties around asset lives (e.g., unclear asset closure schedules and timing of the subsequent activities to meet retirement obligations). This is also done with little to no additional disclosure.

The result is that investors are left without crucial information needed to assess companies' financial condition, especially as the financial impacts of the energy transition increase the uncertainty surrounding the timing of these obligations. Improved disclosure would protect investors, and so financial markets, from unexpected financial impacts by enabling them to assess how companies are estimating and properly preparing for future costs and whether their estimates align with investors' own projections.

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[6] Sustainable Fitch, "Retiring Oil and Gas Assets Will Have Long-Term Financial and Environmental Impacts", January 13, 2023. Available at: https://www.sustainablefitch.com/corporate-finance/retiring-oil-gas-assets-will-have-long-term-financial-environmental-impacts-13-01-2023

[7] Carbon Tracker, "Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk", December 14, 2023. Available at: https://carbontracker.org/reports/overlooked-why-oil-and-gas-decommissioning-liabilities-pose-overlooked-financial-stability-risk/

[8] Carbon Tracker, "Billion Dollar Orphans: Why millions of oil and gas wells could become wards of the state", October 1, 2020. Available at: https://carbontracker.org/reports/billion-dollar-orphans/

[9] BNN Bloomberg, "S&P Downgrades Suncor to Just Above Junk as Oil Prices Weaken", December 20, 2024. Available at: https://www.bloomberg.com/news/articles/2024-12-20/s-p-downgrades-suncor-to-just-above-junk-as-oil-prices-weaken

Key Issue #1: Lack of disclosure and potential understatement of balance sheet liabilities

Under GAAP, provisions for AROs are calculated by estimating the present value of the cost of meeting the obligations in the future, factoring in elements such as the estimated timing of asset retirement and of meeting the obligations, estimated costs, inflation rates, and discount rates. Together, these should reflect the financial impacts of relevant material risks ("expected present value"). Without transparency into these assumptions, investors cannot assess whether the reported liabilities are appropriately estimated or may, in some cases, be misstated.

In the Ceres-hosted roundtable described above, investors stressed the need for comprehensive, quantitative disclosures about the estimates and assumptions underlying AROs. Such transparency would allow investors to assess a company's financial resilience and compare its projections with their own. While investors obtain some ARO information from companies that prepare their financial statements under International Financial Reporting Standards (IFRS), including US Foreign Private Issuers,[10] this information is typically lacking in US company filings. Investors expressed concern that this gap impedes efficient capital allocation and undermines comparability, ultimately limiting their ability to accurately assess a company's financial health.

The assumptions used in estimating AROs are significant in determining the single number that appears in the balance sheet as a liability. That figure, in turn, directly affects asset values (as a cost of the corresponding asset) and reported profitability (through depreciation, impairment, and interest expense (accretion)). Additionally, given the typically long-term nature of these obligations, the reported balance sheet amount—based on discounted future costs—can only be meaningfully interpreted alongside current cost projections and expected future cash outflows, which often differ significantly from the present value reported on the balance sheet.

The bp example below, summarized from information in the company's 2024 annual report, shows some of the dynamics involved in such present value calculations. Disclosure of this information greatly improves the ability of investors to understand and consider the obligation recognized on the balance sheet (the provision). For example, the balance sheet amount of $11.8 billion contrasts with the estimated cost of meeting the obligations at the balance sheet date of $18.4 billion, and the corresponding undiscounted inflation-adjusted cash flows estimated at $24.6 billion, more than twice the provision amount. Many companies do not disclose this information, so only the balance sheet provision is shown. Additionally, the provision is often not disaggregated by activity or asset class, giving investors very limited insight into these amounts.

[10] See, e.g., bp 2024 Annual Report, p. 84-85. Available at: https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/investors/bp-annual-report-and-form-20f-2024.pdf

Calculation components for ARO balance sheet provision amount	**bp's 2024 amounts disclosed***
Current estimated costs of meeting the obligations at the balance sheet date	**$18.4bn****
Expected timing of the current estimated costs	**$5.5bn yrs 1-10; $6.2bn yrs 10-20; $6.7bn yrs 20+**
Inflation rate	**1. 5%**
Undiscounted cash flows to be paid (current costs, increased for inflation up to the expected timing)	**$24.6bn**
Discount rate	**4.5%** (long-dated US government bonds)
Balance sheet provision/liability (present value: undiscounted cash flows of $24.6bn discounted to the balance sheet date)	**$11.8bn** Current: $0.7bn, Non-current: $11.1bn
Additional disclosures	
Sensitivity analysis (to changes in cost and timing estimates, inflation rate and discount rate) Each sensitivity amount indicates the approximate change to the balance sheet provision amount for AROs bp also provides the impact of such changes on profitability before tax (e.g., including the impact on depreciation expense for the related assets and interest (accretion) expense)	A 10% increase in expected costs could increase provisions by $1.2bn. A two-year change in timing to expected costs could change provisions by $0.3bn. A 1% point increase in inflation rate could increase the provision by $1.7bn. A 1% point increase in discount rate could decrease the provision by $1.5bn.
* All of this information, except for the undiscounted cash flows to be paid of $24.6 billion, are included in the notes to the audited financial statements. ** This is described by the company as the 'undiscounted cash flows in real terms for upstream decommissioning'. However, it appears to be the current estimate of costs.	

Investors reviewing this disclosure gain meaningful information that is typically missing from the filings of many other energy companies.

Key Issue #2: Off-balance sheet liabilities: the frequent non-recognition of AROs for certain assets on the balance sheet

The accounting requirements for AROs are set forth in Accounting Standards Codification (ASC) 410. Paragraph 410-20-25-4 states: "An entity shall recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability shall be recognized when a reasonable estimate of fair value can be made." There is no question as to when the obligation is incurred—it is incurred as part of commissioning the asset for use (building a refinery or pipeline, drilling wells, etc.). But frequently at issue is whether a "reasonable estimate of fair value" can be made.

Despite this standard, Carbon Tracker's extensive research and benchmark analysis[11] indicates that most oil and gas companies are not recording AROs on their balance sheets for assets related to midstream (e.g., pipelines) and/or downstream (e.g., refineries) activities. These companies typically rely on the language in the standard regarding a "reasonable estimate of fair value" (if, for example, "an asset has an indeterminate useful life") concluding that such an estimate cannot be made. But this seems contrary to the standard.

Paragraphs 410-20-25-7 through 410-20-25-13 clarify the conditions in which fair value should be "reasonably estimable" and our reading of these paragraphs suggests that companies should generally have sufficient information to record the liability.

In particular, ASC 410-20-25-11 states that: "Examples of information that is expected to provide a basis for estimating the potential settlement dates, potential methods of settlement, and the associated probabilities include, but are not limited to, information that is derived from the entity's past practice, industry practice, management's intent, or the asset's estimated economic life."

This information should typically be available to companies. This interpretation is reinforced by discussions in publications issued by major accounting firms. For example, a Deloitte publication states: "Entities would typically have sufficient information to estimate a range of potential settlement dates, the potential methods of settlement, and the related probabilities on the basis of the factors [included in ASC 410-20-25-6, 8, and 11]. It would not be appropriate for an entity to delay recognition of the liability merely on the basis that management does not intend to perform the asset retirement activities in the foreseeable future."[12]

[11] Carbon Tracker "Off the record: Accounting loophole leaves billions in decommissioning obligations unaccounted for" December 3, 2024. Available at: https://carbontracker.org/reports/off-the-record/

[12] Deloitte, "Initial Recognition of AROs and ARCs", n.d. Available at: https://dart.deloitte.com/USDART/home/codification/liabilities/asc410-10/roadmap-environmental-obligations-aro/chapter-4-accounting-for-asset-retirement/4-4-initial-recognition-aros-arcs

Likewise, a PwC report states: "If a range of possible settlement dates exists, then the period is not indeterminate, and accrual of a liability would be required."[13] Despite the language of the standard and the accounting profession's understanding of the standard, Carbon Tracker estimates that approximately "75 percent of oil and gas AROs are entirely off balance sheet."[14] The primary reason cited by companies for this is "indeterminate lives" of such assets, without giving sufficient, company-specific justification. As a result, investors lack adequate insight into the underlying process or rationale behind this determination that prevents recognition of the ARO provision, a matter that is particularly important in the face of changing market demand, regulations and intentions to convert some of these assets.

This reasoning also appears inconsistent with how companies treat these same assets for depreciation purposes. While companies often claim that the timing of retirement obligations is too uncertain to estimate, they simultaneously depreciate the related assets (such as pipelines and refineries) based on a finite expected remaining life. This inconsistency suggests that companies do in fact possess enough information to estimate the retirement timeline, at least within a reasonable range, and should therefore recognize the associated AROs in accordance with ASC 410.

The FASB should consider the need to provide clearer guidance to ensure that companies do not continue to omit AROs from their balance sheets under the guise of indeterminate timing. This will enhance comparability and transparency across companies and improve the accuracy of financial reporting. Additionally, where there may be rare but appropriate cases of non-recognition due to indeterminate timing, we believe that a company should still be able to disclose a reasonable estimate of the cost of meeting such obligations at the balance sheet date, as the cost of meeting such legal obligations should be a component of a company's decision to invest in an asset such as a pipeline or a refinery.

Putting this in context—the disclosure provided by bp presented in the earlier table not only shows how **recorded** provisions are calculated, but also helps illustrate what information can be provided for unrecorded obligations. While indeterminate timing would inhibit calculation (and disclosure) of undiscounted cash flows using an inflation rate and calculation of their present value based on a discount rate assumption, companies can and should still disclose a **current cost estimate** based on the ongoing monitoring of existing obligations.

Including such estimate in the notes to the financial statements would offer investors a valuable reference point, particularly given the risk such off-balance sheet obligations may pose.

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[13] PwC, "3.4 Recognition and measurement (AROs)." Available at: https://viewpoint.pwc.com/dt/us/en/pwc/accounting_guides/property_plant_equip/property_plant_equip_US/Chapter_3_Asset_retirement_obligations/3_4_Recognition_and_measurement_AROs.html

[14] Carbon Tracker "Overlooked: Why oil and gas decommissioning liabilities pose financial stability risk" December 14, 2023. Available at: https://carbontracker.org/reports/overlooked-why-oil-and-gas-decommissioning-liabilities-pose-overlooked-financial-stability-risk

Notable recent corporate examples

The following examples demonstrate how companies' belated recognition of unrecorded AROs–often coinciding with newly shortened asset lives–can have a distortive effect on performance, impacting the ability to determine future cashflows and ongoing profitability, together with a decline in financial position resulting from the newly recognized ARO provisions.

Phillips 66

In October 2024, Phillips 66 announced that it intends to cease operations at its Los Angeles refinery at the end of 2025 while it "evaluates future use of the property"— citing uncertainty around the "long-term sustainability" of the refinery and "market dynamics."[15] As a result, it recorded new AROs of $205 million,[16] increasing total ARO liabilities by nearly 40%. Previously, Phillips 66 had not disclosed the assumptions and estimates underpinning its AROs (both recognized and unrecognized) nor had it disclosed the estimated remaining lives of the Los Angeles refinery assets. It was unclear why management had been previously unable to determine an ARO estimate related to this refinery.

The belated recording of these AROs had a substantial impact on the company's financial position and net income. Had the AROs been recorded when the assets were commissioned, the company's profitability would have included depreciation of the estimated ARO costs over the life of the productive assets, and interest (accretion) expense relating to the provision. While it did not deem the asset values impaired, the shortening of the estimated remaining lives of these assets led to all ARO costs (together with other costs in the carrying value on the balance sheet) being depreciated in the last 15 months of the assets' operating lives.[17]

Valero Energy Corporation (Valero)

In April 2025 Valero announced that it plans to "idle, restructure, or cease operations at Valero's Benicia Refinery by the end of April 2026."[18] It said it is also evaluating "strategic alternatives" for its remaining California operations, which includes its Wilmington Refinery. As a result, it recorded impairments for both refineries. It also recorded AROs for the first time—however, it was not clear

[15] Phillps 66 Form 8-K October 16, 2024 and Phillips 66 Form 10-K for the year ended December 31, 2024, p. 117. Available at: https://investor.phillips66.com/financial-information/default.aspx?section=news and: https://www.sec.gov/ix?doc=/Archives/edgar/data/0001534701/000153470125000074/psx-20241231.htm respectively

[16] Phillips 66 Form 10-K for the year ended December 31, 2024, p. 129. Available at: https://investor.phillips66.com/financial-information/default.aspx?section=news

[17] The related property, plant and equipment and intangible values of $1.2 billion at year-end will be depreciated to an estimated salvage value of $241 million by the end of 2025. Ibid, p. 117

[18] Valero Announces Notice to the California Energy Commission Regarding its Benicia, California, Refinery. April 16, 2025. Available at: https://investorvalero.com/news/news-details/2025/Valero-Announces-Notice-to-the-California-Energy-Commission-Regarding-its-Benicia-California-Refinery/default.aspx , and Form 10-Q for the quarterly period ended March 31, 2025, p. 7

if the recorded AROs related to both refineries or solely to Benicia.[19] As recently as the year ended December 31, 2024 (just four months earlier), Valero had stated that its refinery asset lives were ”indeterminate“ and so did not recognize any ARO provisions. It had not disclosed the estimated costs of fulfilling its AROs at the balance sheet date, nor had it disclosed the estimated remaining lives of the refinery assets, leaving investors completely in the dark as to the size of the obligation.[20]

The fact that Valero did not recognize any AROs on commissioning of these assets has a distortive effect similar to Phillips 66 on reported profit (loss) over the lives of the assets. It appears that accelerated depreciation and amortization of the value of the Benicia Refinery assets (after being reduced for impairment) will be taken in the last 12 months of operations.[21] Valero noted that it expects the related impairment of $1.1 billion for the two refineries to be treated as a ”special item.” Valero does, however, have other US refining operations which, based on market trends, we note may be subject to similar risks.[22]

Key Implications

These examples underscore the risks of undisclosed ARO assumptions and delayed recognition of the liabilities. In both cases, the companies appeared to previously assert that the relevant asset lives were indeterminate—yet reversed course with material financial impact.

This lack of timely disclosure undermines investor confidence, hinders cash flow forecasting, and raises the possibility that further significant unrecorded (and undisclosed) liabilities may need to be brought onto the balance sheet due to potential changes to regulations in other states, declines

[19] Valero stated that “included in the recoverability assessments ... was the recognition of expected asset retirement obligations of $337 million, which primarily reflects the fair value of estimated costs for certain legal obligations to decommission the assets based on a range of potential settlement dates.” Valero Form 10-Q for the quarterly period ended March 31, 2025, p. 7. Available at: https://s23.q4cdn.com/587626645/files/doc_financials/2025/q1/4782a632-1810-48ee-8b17-b107440446ea.pdf

[20] At year-end, Valero stated that it has ”obligations with respect to certain of our assets at our refineries and plants to clean and/or dispose of various component parts of the assets at the time they are retired. However, these component parts can be used for extended and indeterminate periods of time as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain all our assets and continue making improvements to those assets based on technological advances. As a result, we believe that assets at our refineries and plants have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire such assets cannot reasonably be estimated at this time. We will recognize a liability at such time when sufficient information exists to estimate a date or range of potential settlement dates that is needed to employ a present value technique to estimate fair value.” Valero Form 10-K for the year ended December 31, 2024, p. 79. Available at: https://s23.q4cdn.com/587626645/files/doc_financials/2024/q4/VLO-10K-Q4-2024.pdf

[21] Valero recorded $1.1 billion in impairments related to these two refineries for the quarter ended March 31, 2025, and $337 million in ”expected” asset retirement obligations at March 31, 2025. The Benicia refinery asset values of $722 million will be depreciated to an estimated salvage value of $107 million by April 2026, resulting in $615 million of depreciation and amortization expense. For the quarter ended March 31, 2025, Valero reported a ($0.7bn) loss. Valero Form 10-Q for the quarterly period ended March 31, 2025, pp. 2,7. Available at: https://s23.q4cdn.com/587626645/files/doc_financials/2025/q1/4782a632-1810-48ee-8b1

[22] See US Energy Information Administration (EIA) article which discusses declines in crack spreads across US refineries. Available at: https://www.eia.gov/todayinenergy/detail.php?id=63944

in demand for fossil fuels, and/or an inability to convert refineries to produce low-carbon fuels (e.g., renewable diesel).[23] This lack of transparency, which is not limited to these two companies, can create significant financial risk for investors, reducing their ability to assess company resilience, effectively engage, and adjust their own models accordingly.

Our Recommendations

For the reasons outlined above, we recommend that the Board review the requirements and the application of ASC 410 and consider the following approaches:

1. **Clarify requirements for, provide guidance on, or take other appropriate steps to improve the disclosure of significant quantitative assumptions and estimates underlying ARO liability measurement:** The Board should take steps to ensure better disclosure of the quantitative amounts of assumptions and estimates used to calculate AROs and how they have been determined, including:
    - Current estimated costs of meeting obligations at the balance sheet date,
    - Expected timing of current estimated costs, broken down into useful timescales,
    - Inflation rate applied to these costs,
    - Undiscounted cash flows calculated as a result of these first three assumptions, also broken down into useful timescales, and
    - Discount rate applied to the undiscounted cash flows.

    Such disclosure would offer investors a clearer understanding of the company's current financial statement position and allow for better assessment of resilience under scenarios where retirement obligations must be settled earlier than expected. It would also clarify management's assumptions and judgment in estimating these long-term liabilities. Additional sensitivity analysis would further enable understanding of these obligations and the dynamics of the estimate provided and would enable investors to effectively make decisions.

2. **Clarify expectations with respect to reliance on the indeterminacy of settlement dates as a basis for not recording a liability related to AROs and require comprehensive disclosure for these circumstances:** The failure to record a liability related to AROs based on a conclusion of indeterminate settlement dates should be a rare exception. When uncertainty exists regarding the timing of asset retirement, or the amounts that will be required to settle the obligation, entities should be required to determine a range of possible outcomes and estimate the obligation based on the most reliable information available (including the assumptions used for depreciation). Where a company fails to record a liability related to its AROs it should be required to provide meaningful, company-

[23] See, for example, https://www.eia.gov/todayinenergy/detail.php?id=63944 and https://www.eia.gov/biofuels/renewable/capacity/.

specific disclosures in the notes to the financial statements detailing the basis for reaching that conclusion (for example why it has concluded that timing is considered indeterminate and that the use of an estimation technique is not considered appropriate). The FASB should take whatever steps might be reasonable–perhaps issuing additional guidance, educational materials, or working with the SEC accounting staff, to clarify expectations and improve recognition and related disclosures.

3. **Require disclosure of estimated costs to settle the obligation for any unrecognized AROs:** This would allow investors to gain a clearer understanding of potential liabilities, even when the company has indicated that the timing is not determinable. This approach would provide greater transparency to investors about the company's potential exposure, and the financial implications of settling these obligations which have already been incurred. This should include estimates of the quantitative cost amounts for settling the liability at the balance sheet date–e.g., an updated amount of the cost that we expect would have been considered before making the decision to invest in or build the related asset, and how that current estimate was determined.

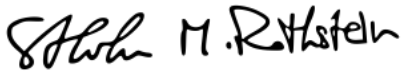
We believe that these recommendations would not be a major or time-consuming project for the FASB to undertake. They meet the three criteria outlined in the ITC (page 3)—namely, there is a significant and pervasive need to improve ARO reporting, there are technically feasible solutions, and the benefits of these solutions will justify the expected costs of change, given that nearly all of the information suggested either underpins the existing balance sheet provision (i.e., already subject to controls and audit given the significant risk to companies exposed to financially material AROs) or has been considered by and is available to the company. The issue also has a clear and identifiable scope, given the existing scope of AROs subject to Subtopic 410.20.[24]

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For further information: At Ceres, please contact Tom Riesenberg, Senior Regulatory Counsel (triesenberg@ceres.org) or Tamar Aharoni, Manager, Climate & Energy (taharoni@ceres.org). At Carbon Tracker, please contact Barbara Davidson, Head of Capital Markets Transparency (bdavidson@carbontracker.org). At the Climate Accounting and Audit Project, please contact Sue Harding (sueharding@hardinganalysis.com).

[24] If the FASB undertakes a broader project on accounting for AROs, we would suggest consideration of the underlying measurement, including whether the use of a credit-adjusted discount rate is still appropriate. For example, see Ceres and CAAP's responses to the International Accounting Standards Board (IASB) consultation on targeted improvements for recognizing and measuring provisions: https://www.ifrs.org/projects/work-plan/provisions/ed-cl-provisions-targeted-improvements/#view-the-comment-letters

Sincerely,



Steven M. Rothstein
Managing Director
Ceres Accelerator for Sustainable Capital Markets



Barbara C. Davidson
Head of Capital Markets Transparency
Carbon Tracker



David Pitt-Watson

Climate Accounting and Audit Project