

Board Meeting Handout
Consolidation for Business Entities
January 28, 2026

Meeting Purpose

1. The purpose of this meeting is for the Board to:
 - (a) Consider the issues raised by stakeholders on the existing consolidation guidance in Topic 810, Consolidation, and the related existing research project, as part of the recent Invitation to Comment, *Agenda Consultation (2025 ITC)*
 - (b) Decide whether to add projects to its technical agenda related to:
 - (i) The definition of *common control*
 - (ii) The interaction of the variable interest entities (VIE) guidance and the guidance on accounting for sale and leaseback transactions involving VIEs
 - (iii) The interaction of consolidation guidance with the derecognition of financial assets.

Questions for the Board

Consolidation for Business Entities

1. Does the Board have any questions, comments, or observations on the feedback received on consolidation for business entities in the 2025 ITC?
2. For additional research, which of the following paths does the Board think the staff should explore?
 - a. *Approach A (streamline the VIE/voting interest entity (VOE) determination and eliminate unnecessary differences)*: Additional research should focus on improving the guidance on (i) determining whether an entity is a VIE or VOE, (ii) differences in significant decisions and participating rights between the VIE and VOE models, and (iii) guidance on related parties.
 - b. *Approach B (start with the VIE model)*: Additional research should focus on pursuing a single consolidation model based on the VIE model. As a first step, research would focus on understanding which areas of the VIE model may need changes to accommodate entities that are currently VOEs as well as understanding the potential effect on outcomes.
 - c. *Approach C (start with modified version of IFRS 10, Consolidated Financial Statements)*: Additional research should focus on pursuing a single consolidation model based on IFRS 10 (but modified to focus on the *contractual or legal right* to direct an entity's activities rather than IFRS 10's focus on the *ability* to direct an entity's activities). As a first step, research would focus on understanding which areas

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Questions for the Board

of IFRS 10 would need to be adapted for the U.S. context as well as the potential effect on outcomes.

- d. *Do not prioritize*: Additional research on the consolidation guidance should not be prioritized at this time.
- 3. Are there other issues raised by comment letter respondents—such as VIE disclosures, changes in outcomes for special purpose vehicles, control-by-contract for non-VIEs, or potential/future voting rights—that should be researched further? If so, what should be the objective of that research?
- 4. Does the Board have any other areas related to the VIE or VOE models that it would like the staff to research further?

Definition of *Common Control*

- 5. Does the Board want to add a project to its technical agenda on the definition of *common control*?
- 6. If the answer to Question 5 is yes, does the Board:
 - a. Have feedback on the project's objective or scope?
 - b. Request that the staff conduct additional research or outreach on certain potential solutions?

Consolidation Guidance Interactions: Interaction of the VIE Guidance and the Accounting for Sale and Leaseback Transaction

- 7. Does the Board want to add a project to its technical agenda on the interaction of the VIE guidance and the accounting for a sale and leaseback transaction?
- 8. If the answer to Question 7 is yes:
 - a. What should be the project's objective or scope?
 - b. Does the Board request that the staff conduct additional research or outreach on certain potential solutions?

Consolidation Guidance Interactions: Derecognition of Nonfinancial Assets

- 9. Does the Board want to add a project to its technical agenda on the interaction of the consolidation guidance and the derecognition of nonfinancial assets?
- 10. If the answer to Question 9 is yes:
 - a. What should be the project's objective or scope?
 - b. Does the Board request that the staff conduct additional research or outreach on certain potential solutions?

Consolidation for Business Entities

Overview of Current Guidance

- 2. As stated in Topic 810, the purpose of consolidated financial statements is to present the results of operations and the financial position of a parent and all its subsidiaries as if the consolidated group were a single economic entity.

3. To present a parent entity's financial statements as though it and its subsidiaries were a single economic entity, the parent entity is required to combine the assets, liabilities, revenues, expenses, gains, losses, and cash flows of its subsidiaries with its own. The consolidated entity is required to eliminate intra-entity balances and transactions. This includes eliminating any intra-entity assets and liabilities, any revenues earned from sales to entities in the consolidated group, purchases made from entities in the consolidated group, gains or losses on transactions among the entities in the consolidated group, and any intra-entity profits or losses included in the carrying amounts of assets remaining within the consolidated group. A parent entity also does not present an asset representing its interest (for example, its equity interest) in a subsidiary.

Control

4. In GAAP, the basis for consolidation of one entity by another is *control*. Topic 810 states that there is a presumption that consolidated statements are more meaningful than separate statements and that they are usually necessary for a fair presentation when one of the entities in the group directly or indirectly has a *controlling financial interest* in the other entities. Accordingly, Topic 810 provides guidance for determining whether an entity has a controlling financial interest in another entity and, therefore, is required to consolidate that entity. An entity with a variable interest¹ in another entity must (unless a scope exception applies) consider detailed guidance in Topic 810 to determine which of the two primary consolidation models—the VOE or VIE model—should be applied.² At a high level:
 - (a) A VOE is an entity in which control can be conveyed through a majority voting interest.
 - (b) A VIE may be controlled through variable interests other than a majority voting interest.

Determining Whether an Entity Is a VIE or a VOE

5. The criteria used to determine if an entity is a VIE or a VOE consider whether:
 - (a) The entity (the investee) has sufficient equity investment at risk.

¹ As defined in the Master Glossary of the Codification, *variable interests* are the investments or other interests that will absorb portions of a variable interest entity's (VIE's) expected losses (negative variability) or receive portions of the entity's expected residual returns (positive variability). Variable interests in a VIE are contractual, ownership, or other pecuniary interests in a VIE that change with changes in the fair value of the VIE's net assets exclusive of variable interests. As noted in paragraph 810-10-25-26, assets and operations of the legal entity typically create the legal entity's variability (and, thus, are not variable interests), and liabilities and equity interests typically absorb that variability (and, thus, are variable interests).

² The Consolidation of Entities Controlled by Contract Subsections of Topic 810 or Subtopic 810-30, Consolidation—Research and Development Arrangements, may be relevant to certain entities able to apply a scope exception to the VIE model.

- (b) As a group, the holders of equity investment at risk have the characteristics of a controlling financial interest.³
 - (c) Equity investors' voting rights are proportional to the economics.⁴
6. An entity lacking any of those characteristics is a VIE. Otherwise, an entity is deemed to be a VOE.
 7. Under the VOE model, the typical condition for a controlling financial interest is ownership of a majority voting interest.⁵
 8. Under the VIE model, a controlling financial interest is assessed differently than under the VOE model. This assessment is different because a controlling financial interest in a VIE may be achieved other than by ownership of voting interests. A controlling financial interest in the VIE model typically requires both (a) the power to direct the activities that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of (or the right to receive benefits from) the VIE that could potentially be significant to the VIE.
 9. A reporting entity with a controlling financial interest in a VIE is referred to as the primary beneficiary. The reporting entity could be (but is not limited to being) an equity investor, another capital provider (such as a debt holder), or a party with another contractual arrangement (such as a guarantor). A VIE may issue voting equity interests, and the entity that holds a majority voting interest may be the primary beneficiary of the VIE.

Related Party Considerations

10. Additionally, the guidance on related parties differs under the VOE and VIE models. For example, under the VIE model, the primary beneficiary may be identified as an entity in a related party group when that group collectively has the characteristics of a controlling financial interest even if no individual entity has those characteristics on its own. This is sometimes referred to as "forced consolidation."

³ In Topic 810, the characteristics of a controlling financial interest are described in more detail as "the power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance," "the obligation to absorb the expected losses of the legal entity," and "the right to receive the expected residual returns of the legal entity." Additionally, there is guidance for this criterion specific to limited partnership or similar entities (such as certain LLCs). For limited partnerships, kick-out rights held by the limited partners are treated as analogous to voting interests. Consequently, if a general partner controls the entity and cannot be removed by the limited partners, the entity would be considered a VIE because it fails this criterion.

⁴ If voting rights are not proportional to economics, an entity considers whether substantially all of the activities of the entity involve or are conducted on behalf of the entity with proportionately few voting rights.

⁵ For limited partnerships and similar entities, this would be a majority of a limited partnership's kick-out rights through voting interests.

Feedback on the 2025 ITC

11. In response to the 2025 ITC, stakeholders provided feedback on challenges under the current guidance and addressed questions related to the development of a single consolidation model. The following two questions were posed to stakeholders:

Question 50: Should the FASB prioritize a project to develop a single consolidation model? If yes, should the FASB leverage the guidance in IFRS 10, the VIE model, or the voting interest entity [VOE] model as a starting point? If the FASB should not prioritize a single consolidation model, should the FASB make targeted improvements to better align the current voting interest entity and VIE guidance, including simplifying the determination of whether an entity is a VIE or a voting interest entity? Please explain.

Question 51: Are there pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction? If so, please provide examples.

12. Thirty stakeholders directly responded to Question 50, Question 51, or provided general feedback on consolidation. Overall, those stakeholders provided mixed views on whether the Board should prioritize a project to develop a single consolidation model. While some stakeholders (primarily practitioners) noted that it should be a top priority, some other stakeholders identified it as a low priority. A few stakeholders were neutral on whether developing a single consolidation model should be prioritized.

Challenges Encountered under Current Guidance

13. Stakeholders (primarily practitioners) that expressed support for, or neutrality toward, revising the consolidation guidance in Topic 810 identified several challenges experienced under the current guidance.
14. Many of these stakeholders (and a few that did not support prioritizing changes to the consolidation guidance at this time) highlighted challenges associated with determining whether an entity is a VIE or a VOE under the guidance in Topic 810. These stakeholders noted that the guidance for determining whether an entity is a VIE or a VOE is complex, time consuming, challenging to apply, the source of significant diversity in practice, and can be redundant with the analysis used to determine which entity, if any, is required to consolidate another entity. Some of these stakeholders also indicated that the Board should consider changes to the guidance on determining whether an entity's equity investment at risk is sufficient (which is part of determining whether an entity is a VIE or a VOE). Those stakeholders noted that this requirement was developed as part of a previous iteration of the VIE model that has since been superseded, results in diversity in practice, or could be clarified or improved for early-stage investment companies.

15. Some stakeholders observed inconsistencies between similar concepts in the VIE and VOE models. For example, these stakeholders noted that, despite the models having similar concepts in some areas, they contain substantively different requirements that can result in reporting entities reaching different consolidation conclusions about entities that are controlled through voting interests. Some stakeholders also highlighted that this potentially could create structuring opportunities. The differences in requirements that stakeholders highlighted included (a) how decision-making rights are considered, (b) the definitions of participating (veto) rights, (c) the number of entities that need to hold kick-out rights over a decision maker to prevent it from having control, and (d) the consideration of related parties.
16. Some stakeholders also highlighted challenges associated with the related-party guidance in the VIE model. Some noted that this guidance is difficult to navigate and apply. Others emphasized that the current related party guidance can require a reporting entity to consolidate another entity even when it does not hold a controlling financial interest on its own. They noted that this requirement often applies in situations in which related parties share power, which can create outcomes that are inconsistent across arrangements that have similar economics. Therefore, some suggested that this guidance be reconsidered.

Single Consolidation Model

17. Most stakeholders that supported changes to the consolidation guidance indicated that the Board should develop a single consolidation model to address existing challenges. Most of these stakeholders specifically noted that the Board should develop a single consolidation model because it would eliminate the need to identify whether an entity is a VIE and would resolve inconsistencies (including inconsistent outcomes) between the VIE and VOE models.
18. Of the stakeholders that supported a single consolidation model, there was mixed feedback about whether the Board should use IFRS 10 or the guidance for determining the primary beneficiary under the VIE model in Topic 810 as a starting point; no stakeholders suggested using the VOE model as a starting point.

Other Suggested Approaches

19. Stakeholders provided mixed feedback on whether, instead of a single consolidation model, the Board should consider making targeted improvements to the guidance in Topic 810 for identifying a controlling financial interest. Some stakeholders indicated that the Board should consider targeted improvements either in the short term or instead of a single consolidation model. Some stakeholders that did not support the development of a single consolidation model indicated that targeted improvements could be made to better align the VIE and VOE models or that an entity could be permitted to forgo the assessment of whether an entity is a VIE if the consolidation conclusion is clear regardless of whether the entity is a VIE or a VOE.

20. By contrast, some stakeholders indicated that if the Board does not pursue a single consolidation model, then it should not pursue targeted improvements. One of these stakeholders indicated that targeted improvements would not be expected to simplify application of the guidance for any stakeholders other than consolidation accounting experts.

Accounting Outcomes

21. Many stakeholders said that they are not aware of any pervasive accounting outcomes that result from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction. Several of those stakeholders noted that the current guidance generally results in appropriate consolidation outcomes. Therefore, some of those stakeholders cautioned against making changes to the consolidation guidance that would affect current consolidation outcomes.

Potential Approaches

22. If the Board prioritizes further research in this area, there are three broad approaches that stakeholder feedback suggests could be helpful to consider, each representing a distinct path forward. Those approaches are as follows:
- (a) *Approach A:* Harmonize the Two Models: Streamline the VIE/VOE Determination, and Eliminate Unnecessary Differences
 - (b) *Approach B:* Pursue a Single Model by Starting with the VIE Model
 - (c) *Approach C:* Pursue a Single Model by Starting with a Modified IFRS 10 Model (Based on the Contractual or Legal Right to Direct an Entity's Activities).

VIE Disclosures

23. Section 810-10-50 contains overall consolidation-related disclosure requirements (for example, those related to a less-than-wholly-owned subsidiary) in addition to many disclosures that are specific to entities that have a variable interest in a VIE.
24. For entities with a variable interest in a VIE, Section 810-10-50 sets forth the objective of providing financial statement users with an understanding of all of the following:
- (a) The significant judgments and assumptions made by a reporting entity in determining whether it must (i) consolidate a VIE or (ii) disclose information about its involvement in a VIE
 - (b) The nature of restrictions on a consolidated VIE's assets and on the settlement of its liabilities reported by a reporting entity in its statement of financial position, including the carrying amounts of those assets and liabilities

- (c) The nature of, and changes in, the risks associated with a reporting entity's involvement with a VIE
 - (d) How a reporting entity's involvement with the VIE affects the reporting entity's financial position, financial performance, and cash flows.
25. A reporting entity is required to consider those objectives and whether it must supplement the disclosures specifically required for VIEs depending on its facts and circumstances. The disclosure requirements for a primary beneficiary of a VIE differ from the requirements for nonprimary beneficiary holders of a variable interest in a VIE.

Feedback on the 2025 ITC

26. Some stakeholders suggested reconsidering or eliminating VIE presentation and disclosure requirements. Specifically, comment letters suggested reconsidering or eliminating (a) tabular disclosures of carrying amounts and classification of the assets and liabilities in a reporting entity's statement of financial position that relate to the reporting entity's variable interest in the VIE, (b) disclosure of the maximum exposure to loss, and (c) and narrative explanations of the nature of involvement and support provided to a VIE. Those stakeholders noted that those disclosures are costly to produce, operationally burdensome, and of limited usefulness to financial statement users, especially for VIEs that are not consolidated.

Definition of *Common Control*

Overview and Feedback on the 2025 ITC

27. The 2025 ITC provides the following description of the issue related to the definition of *common control* and includes a question for respondents:

Definition of Common Control

Stakeholders provided feedback that it can be difficult to determine whether entities are under common control, especially when evaluating multiple parties (for example a control group).

The term *common control* is not defined in the Master Glossary; however, examples are provided in Subtopic 805-50, Business Combinations—Related Issues. Determining when separate entities are under common control can affect financial statements because some areas of GAAP (such as business combinations accounting) exclude, or require specific accounting for, transactions between entities that are under common control. Additionally, the lack of a definition for the term common control creates complexity for private companies in determining whether they are required to apply the VIE guidance to legal entities under common control. Therefore, stakeholders suggested that the FASB define common control to improve the operability of GAAP.

Question 10: Should the FASB consider defining the term common control? If yes, how should the term be defined and what would be the anticipated effect? Please explain.

28. The term *common control* is used in several areas throughout GAAP. For example, many Topics provide specialized guidance or scope exceptions for common control transactions and/or balances (such as receivables and payables between entities under common control).
29. Thirty-two stakeholders responded to the ITC question or provided general feedback on the definition of common control. Many of those stakeholders noted that defining common control is a low priority, while some identified the topic as a top priority and some other stakeholders were neutral on priority. The definition of common control was one of the most frequently identified top priorities for practitioners.
30. Stakeholders that identified defining common control as a top priority or said that they would support such a project cited several reasons, including that providing a definition of the term *common control* could address challenges in practice in determining whether private equity portfolio companies are under common control.
31. During the development of the 2025 ITC, multiple stakeholders (primarily practitioners) provided similar feedback. One of those stakeholders highlighted that there is a lack of consistency between what is considered to be a common control transaction under the Private Company Council (PCC) alternative and the Securities and Exchange Commission's (SEC) announcement in EITF Issue No. 02-5, "Definition of 'Common Control' in Relation to FASB Statement No. 141." This stakeholder also noted that it encounters this issue most commonly in private-equity-backed structures in which there are multiple funds because it can be challenging to determine if the investees (portfolio companies) are commonly controlled. This stakeholder also explained that when assessing whether investees are under common control, there may be information constraints. For example, it could be challenging to determine if certain subsidiaries are commonly controlled when there may be several layers of legal entities that need to be analyzed to determine if a common control relationship is present. Therefore, those responsible for preparing and auditing the separate financial statements of one investee may not have sufficient information about the other entities that are potentially under common control with the reporting entity. That stakeholder also noted that those investees may be audited by different firms and, therefore, it is possible that two investees reach different conclusions about whether they are under common control.
32. In comment letter feedback to the 2025 ITC, others highlighted that the term *common control* is not defined, yet is pervasive throughout the Codification, which has resulted in diversity in practice and operational and reporting challenges.

33. Stakeholders noted that although practice looks to the SEC staff's observations documented in Issue 02-5 to assess whether entities owned by different family members are under common control, a codified definition of the term *common control* could improve this guidance. Similarly, during a PCC working session to discuss the 2025 Agenda Consultation held in May 2025, a preparer PCC member noted that it can be difficult to determine what constitutes common control in family businesses and that the lack of a codified definition creates diversity in practice.
34. Conversely, stakeholders that identified defining *common control* as a low priority cited several reasons, including the following:
- (a) Sufficient guidance already exists, such as public interpretive guidance, the guidance in Topic 805, Business Combinations, and Topic 810 as well as the SEC staff's observations documented in Issue 02-5.
 - (b) There are no significant practice issues in applying the guidance.
 - (c) Challenges typically arise from complex, transaction-specific circumstances, rather than a lack of a definition.
 - (d) It would be challenging to develop a definition of common control.
 - (e) Defining common control is not expected to materially change reporting outcomes for investors.
35. Stakeholders provided several suggestions to address the definition of common control, such as codifying the SEC staff's observations that are documented in Issue 02-5 and paragraph BC19 in Accounting Standards Update No. 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*. Others suggested developing a principles-based definition, leveraging existing guidance in Topic 810 or provided by other standard setters. Some noted that a clear, principles-based definition would improve consistency in financial reporting, improve operability of GAAP, and reduce diversity in practice, particularly for private equity, asset management, and fund structures. Others noted that developing a broad definition could allow for professional judgment that reflects the economic substance of relationships.
36. Several stakeholders noted that if the Board decides to define common control, the definition should be applied consistently throughout GAAP.

Supplemental Outreach

37. To gain a broader perspective of how practitioners view challenges related to lack of definition for the term *common control* in GAAP, the staff conducted outreach with six practitioners. In addition to feedback similar to what was provided in the comments letters to the 2025 ITC,

practitioners provided mixed views on how defining the term *common control* would interact with other areas of limited guidance in Subtopic 805-50 on common control transactions. This included the guidance on transactions with a high degree of common ownership and the measurement and recognition guidance applicable to entities engaging in a common control transaction.

Consolidation Guidance Interactions: Interaction of the VIE Guidance and the Accounting for Sale and Leaseback Transactions

Overview of the 2025 ITC

38. The 2025 ITC provides for the following description of the issue related to interaction of the VIE guidance and the accounting for a sale and leaseback transaction, as well as a question for respondents:

Interaction of Consolidation Guidance and Other Transactions

Stakeholders noted there are certain areas of GAAP that interact with the guidance in Topic 810, Consolidation, that result in unnecessary complexity and diversity in practice. Stakeholders suggested that the FASB consider revising the following guidance:

Guidance

Interaction of the VIE guidance and the accounting for a sale and leaseback transaction

Stakeholders' Observations

Evaluating the VIE guidance is complex for transactions that involve (1) transfers of real estate (with a repurchase option) to a legal entity and (2) a sale and leaseback of assets—particularly in private company transactions in which the seller/lessee may have limited access to information.

Stakeholders' Suggested Alternatives

Consider revisions or clarifying the sequencing of the examples in the VIE and leases guidance on sale and leaseback transactions.

Question 11: Should the FASB prioritize a potential project to improve and align the guidance in any of these areas? If yes, what should be included in the scope and what alternatives should be considered? Please explain.

Issue Background

39. In a sale and leaseback transaction, an entity (the seller-lessee) sells an asset that it owns to another party (the buyer-lessor) and subsequently leases back the same asset. In cases in which the seller-lessee retains certain rights over the leased asset, such as the right to repurchase the asset, the guidance in Topic 842 may prevent the seller-lessee from recognizing the transfer of the asset as a sale. Therefore, although a lease arrangement

exists, it is ignored for accounting purposes. The seller-lessee also is required to assess whether it has a controlling financial interest in the buyer-lessor under Topic 810.

Interaction of the Guidance on Leases with the Guidance in Topic 810

40. When determining whether a reporting entity has a controlling financial interest, it has to determine whether it has a variable interest in another entity (an entity must determine whether it has a *variable interest* even if the legal entity being analyzed is not a VIE under Topic 810).⁶ Therefore, determining whether a lease is a variable interest can be significant because if the lease is a variable interest, the lessee could be required to consolidate the lessor (particularly, if the lessor's only asset is the leased asset).
41. Topic 810 also does not explicitly address how a lease should be analyzed in a sale and leaseback transaction.

Feedback on the 2025 ITC

42. Seven comment letter respondents addressed the interaction of the VIE guidance and the accounting for a sale and leaseback transaction. Four comment letter respondents (all practitioners) expressed support for addressing this issue.
43. One stakeholder noted that the Board should clarify that in a sale-and-leaseback transaction, an analysis of whether consolidation of a legal entity is required and should be performed under Topic 810 and sequentially before the guidance in Topic 842 is applied.
44. By contrast, three respondents (a practitioner, a preparer, and a trade group) said that they are not aware of significant issues in this area that would warrant changes.

Consolidation Guidance Interactions: Derecognition of Nonfinancial Assets

Overview of 2025 ITC

45. The 2025 ITC provides for the following description of this issue:

Interaction of Consolidation Guidance and Other Transactions

Stakeholders noted there are certain areas of GAAP that interact with the guidance in Topic 810, Consolidation, that result in unnecessary complexity and diversity in practice. Stakeholders suggested that the FASB consider revising the following guidance:

⁶ See guidance in paragraph 810-10-25-38.

Paragraph 810-10-25-38 A reporting entity shall consolidate a VIE when that reporting entity has a variable interest (or combination of variable interests) that provides the reporting entity with a controlling financial interest on the basis of the provisions in paragraphs 810-10-25-38A through 25-38J. The reporting entity that consolidates a VIE is called the primary beneficiary of that VIE.

Guidance

Interaction of the consolidation guidance and guidance for derecognition of nonfinancial assets (in Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets), specifically, the accounting for distinct nonfinancial assets when an entity ceases to hold a controlling financial interest in a legal entity (1) that does not meet the definition of a business, (2) for which substantially all of the fair value of its assets is concentrated in nonfinancial assets, and (3) in which the reporting entity retains a repurchase option for the nonfinancial assets

Stakeholders' Observations

There is diversity in practice in the accounting for nonfinancial assets that the reporting entity is unable to derecognize under Subtopic 610-20.

Stakeholders' Suggested Alternatives

Consider providing guidance to address the accounting for the nonfinancial assets in this specific fact pattern.

Question 11: Should the FASB prioritize a potential project to improve and align the guidance in any of these areas? If yes, what should be included in the scope and what alternatives should be considered? Please explain.

Issue Background

46. A reporting entity applies the guidance in Topic 810 to determine whether it has a controlling financial interest in a legal entity and, therefore, is required to consolidate that legal entity. When a reporting entity has concluded that it no longer has a controlling financial interest in a previously consolidated legal entity under Topic 810 (for example, because it sold an equity interest in that legal entity), it may also have to consider whether it is able to derecognize nonfinancial assets or in substance nonfinancial assets held by that legal entity under the guidance in Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets. Subtopic 610-20 provides guidance on the sale of nonfinancial assets (or in substance nonfinancial assets to noncustomers, including partial sales) that do not meet the definition of a business.
47. Subtopic 610-20 applies to the sale of nonfinancial assets and in substance nonfinancial assets.⁷ It does not apply (a) if the sale is to a customer (under Topic 606, Revenue from Contracts with Customers), (b) to the sale of a business (under Topic 805), or (c) to the sale of a nonprofit activity.

⁷ Paragraph 610-20-15-5 states that an *in substance nonfinancial asset* is a financial asset (for example, a receivable) promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty in the contract are in substance nonfinancial assets. For purposes of this evaluation, when a contract includes the transfer of ownership interests in one or more consolidated subsidiaries that is not a business, an entity is required to evaluate the underlying assets in those subsidiaries.

48. Under Subtopic 610-20, a reporting entity that determines that it does not have a controlling financial interest (under Topic 810) upon transferring ownership interests in that legal entity should determine whether a contract is present (based on the guidance in Topic 606). If a contract is present, the reporting entity then derecognizes each distinct nonfinancial asset when it transfers control of the asset in accordance with paragraph 606-10-25-30. The concept of control is different under Topic 606 (paragraph 606-10-25-25) than it is under Topic 810. Under Topic 606, control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.
49. The guidance in Subtopic 610-20 builds on the requirements in Topic 606 and provides for an example in which an entity loses control under Topic 810 but not under Topic 606. In that example, a fixed price repurchase option conveying the right for the reporting entity to repurchase a majority voting interest in the legal entity holding nonfinancial assets does not provide the reporting entity with a controlling financial interest under Topic 810. However, the repurchase option precludes derecognition of the nonfinancial assets held by the legal entity under Subtopic 610-20 (because control has not transferred under Topic 606). Instead of derecognizing the nonfinancial assets, the transferor is required to recognize a financial liability. The paragraph containing that guidance follows:

610-20-55-11 Entity A owns 100 percent of Entity B, a consolidated subsidiary. Entity B holds title to land with a carrying amount of \$5 million. Entity A concludes that the land is not an output of its ordinary activities within the scope of Topic 606 and that Entity B does not meet the definition of a business within the scope of Topic 810.

610-20-55-12 Entity A enters into a contract to transfer 60 percent of Entity B to Entity X for \$6 million cash due at contract inception. For ease of illustration, assume that at contract inception the fair value of the 40 percent interest retained by Entity A is \$4 million. Because all of the assets (the land) promised to Entity X in the contract are nonfinancial assets, Entity A concludes that it should derecognize the land in accordance with this Subtopic.

610-20-55-13 As described in paragraphs 610-20-25-2 through 25-7, Entity A first considers the guidance in Topic 810 and concludes that it no longer has a controlling financial interest in Entity B or in Entity X (the buyer).

> > Case B—Control Transfers under Topic 810 but Not under Topic 606

610-20-55-15 Assume the same facts as in Case A, except that Entity A has the right but not the obligation to repurchase the 60 percent ownership interest in Entity B that it transferred to Entity X (that is, Entity A has a call option). The call option gives Entity A the right to repurchase the 60 percent ownership interest in 2 years for \$7 million.

610-20-55-16 Entity A concludes that although the call option represents a variable interest in Entity B, it does not have a controlling financial interest in Entity B in accordance with the guidance in Topic 810. However, when evaluating whether control of the land has been transferred in accordance with the guidance in paragraph 606-10-25-30, Entity A considers the guidance on repurchase features in paragraphs 606-10-25-30(c) and 606-10-55-68 and concludes that it does not transfer control of the land. In addition, because the exercise price on the call option is an amount that is greater than the original selling price, the transaction is considered a financing agreement in accordance with the guidance in paragraph 606-10-55-68(b). Entity A does not derecognize the land and records a financial liability of \$6 million in accordance with the guidance in paragraph 606-10-55-70. Entity A does not recognize an investment for its retained 40 percent ownership interest until it derecognizes the land.

Feedback on the 2025 ITC

50. Comment letter respondents provided mixed feedback on whether this guidance should be addressed. Five respondents (all practitioners) indicated that further work in this area should be prioritized while four respondents (two practitioners, one preparer, and one trade group) indicated that this area should not be a high priority.
51. Those that supported prioritizing this area stated that (a) there is an increasing frequency of transactions involving complexities related to the intersection of Topic 810 and Subtopic 610-20 and (b) there is a lack of alignment between Topic 810 and the derecognition guidance for subsidiaries that do not constitute a business that can result in financial reporting outcomes that are not consistent with the underlying economics of the transaction.
52. By contrast, those that did not support prioritizing this area stated that (a) they are not aware of diversity in practice in this area and the current guidance is sufficient and (b) the scenario contemplated by this issue is uncommon.

Analysis of Agenda Criteria

53. The Board will evaluate a potential project or projects related to (a) the definition of common control, (b) the interaction of the VIE guidance and the accounting for sale and leaseback transactions based on the following agenda-decision criteria, and (c) the interaction between consolidation guidance and the derecognition of nonfinancial assets based on the agenda-decision criteria:
 - (a) Is there an identifiable and sufficiently pervasive need to improve GAAP?
 - (b) Are there technically feasible solutions, and are the expected benefits of those solutions likely to justify the expected costs of change?
 - (c) Does the issue have an identifiable scope?

Board Meeting Handout
Accounting for Asset Retirement Obligations and Environmental
Obligations
January 28, 2026

Meeting Purpose

1. The purpose of this meeting is for the Board to decide whether to add a project to its technical agenda related to asset retirement obligations (AROs) and/or environmental obligations (EOs).
2. This meeting will be organized into two parts. Part One relates to Subtopic 410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations. Potential improvements to this area were described in the 2025 Invitation to Comment, *Agenda Consultation* (2025 ITC), and broad feedback was solicited through questions in that document.
3. Part Two relates to Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations. An [agenda request](#) received in February 2025 (see Appendix C) suggested that the Board clarify or amend certain aspects of Topic 410, Asset Retirement and Environmental Obligations.

Questions for the Board

Part One

1. Does the Board have any questions, comments, or observations on the feedback received and information provided on AROs and EOs?
2. Does the Board have enough information to make an agenda decision regarding AROs? If so, does the Board want to add a project to its agenda related to AROs? If not, what other information do you need to make a decision?

Part Two

3. Does the Board want to add a project to its technical agenda related to the guidance on EOs in Subtopic 410-30?

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

Part One: ITC Feedback and Asset Retirement Obligations

4. The FASB sought specific feedback on accounting for AROs as part of the 2025 ITC. The issues identified by stakeholders in developing the ITC and in feedback on the ITC can be summarized in three themes:
 - (a) *Issue A: Unrecognized AROs:* An entity has the ability to avoid recognizing an ARO if its fair value cannot be reasonably estimated; for example, when the associated asset has an indeterminable useful life.
 - (b) *Issue B: Measurement of AROs:* Fair value measurement may not best reflect the economics of the obligation upon settlement because the fair value of the liability for an ARO may be greater than the settlement amount, resulting in an entity recognizing a gain upon settlement.
 - (c) *Issue C: Improved disclosures about recognized AROs:* There could be more information required in disclosures associated with recognized and unrecognized AROs.

2025 Agenda Consultation ITC Feedback

5. Chapter four of the 2025 ITC included the following question for respondents on AROs:

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).
6. Twenty-four of the stakeholders who responded to the ITC addressed AROs in their comment letters. Many of those stakeholders expressed that addressing disclosure requirements and (or) nonrecognition guidance should be a top priority for the Board. Some stakeholders (primarily practitioners) indicated that AROs should be a low-priority topic for the Board. A few respondents were neutral in their assessments of whether the Board should address relevant guidance under Subtopic 410-20.
7. Of those respondents who highly supported adding this topic to the Board's technical agenda, the feedback focused on the following two areas:
 - (a) Limiting the use of the disclosure only practice for AROs with indeterminate lives (that is, requiring the recognition of more AROs that have indeterminate lives)
 - (b) Enhancing disclosure requirements for recognized AROs and AROs without a reasonably estimable fair value.

8. Those respondents who suggested improvements in the areas noted in paragraph 7 of this handout were mostly investors and other financial statement users and investor trade groups, including some investor trade groups that have a specific interest or focus on environmental concerns. The practitioners and preparers who responded either provided no additional comments or classified that this topic is a low priority.
9. There were a couple of stakeholders who commented that the estimation and discounting practices are too burdensome and complex, especially for private companies.
10. Stakeholders observed that entities disclose that they often do not recognize a liability because the associated asset has an indeterminable useful life. As such, information about these indeterminate-lived obligations is typically disclosed in a few short sentences. Entities often acknowledge that the associated assets will not operate in perpetuity. Thus, many respondents requested more information on these unrecognized AROs and for the current guidance to be changed so that fewer AROs qualify as indeterminate lived. Specifically, respondents suggested that the Board require the recognition of an ARO except for what those respondents describe as a rare circumstance when an indeterminate life can be well-substantiated. Respondents also suggested that the Board provide better guidance on how to estimate the fair value of these obligations, require that entities measure an ARO using a best estimate on the basis of available information, or require that entities disclose a range of estimates. Respondents noted that those changes would increase the transparency for investors of future cash outflows that an entity will have.
11. The most frequent suggestion for the Board that was provided by respondents on this topic was to require more robust disclosures for recognized AROs and/or AROs with indeterminate lives. In current practice, disclosures for recognized AROs often include a table that shows the change in the obligation from the beginning of the period to the end of the period. For those recognized AROs, respondents requested a disclosure of key assumptions and estimates used in estimating the fair value of the obligation, such as a disclosure that would require the useful lives of the associated assets, estimated retirement timeline, and the discount rate used, among other inputs.

Staff Research, Additional Outreach, and Potential Improvements

Issue A: Unrecognized AROs

Current GAAP

12. An ARO is defined in the Codification Master Glossary as “an obligation associated with the retirement of a tangible long-lived asset.” In summary, AROs are measured at fair value and recognized in the period that a reasonable estimate can be made. When there are

uncertainties about the amount or timing of settlement, those uncertainties are factored into measurement by assigning probabilities to expected cash outflows. The guidance specifies that there are instances in which fair value cannot be assigned, most often related to an indeterminate useful life of the asset. In those cases, disclosure is required. Paragraph 23 of this handout provides more detailed discussion about disclosure requirements for AROs.

13. The detailed recognition guidance in paragraph 410-20-25-4 is as follows:

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. If a tangible long-lived asset with an existing asset retirement obligation is acquired, a liability for that obligation shall be recognized at the asset's acquisition date as if that obligation were incurred on that date.

14. Paragraph 410-20-25-7 explains that even if the amount and timing or method of settlement are uncertain, "...an expected present value technique incorporates uncertainty about the timing and method of settlement into the fair value measurement. Uncertainty is factored into the measurement of the fair value of the liability through assignment of probabilities to cash flows."

15. Paragraph 410-20-25-10 states:

Instances may occur in which sufficient information to estimate the fair value of an asset retirement obligation is unavailable. For example, if an asset has an indeterminate useful life, sufficient information to estimate a range of potential settlement dates for the obligation might not be available. In such cases, the liability would be initially recognized in the period in which sufficient information exists to estimate a range of potential settlement dates that is needed to employ a present value technique to estimate fair value.

16. Paragraph 410-20-25-13 implies that even if the life of the asset is indeterminate, an ARO liability is still present. Specifically, that paragraph states the following:

If a current law, regulation, or contract requires an entity to perform an asset retirement activity when an asset is dismantled or demolished, there is an unambiguous requirement to perform the retirement activity even if that activity can be indefinitely deferred. At some time deferral will no longer be possible, because no tangible asset will last forever (except land). Therefore, the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement.

17. If no reasonable estimate of fair value can be made, paragraph 410-20-50-2 states that “the fact and the reasons therefor shall be disclosed.” If a reasonable estimate of fair value can be made, paragraph 410-20-30-1 states that “an expected present value technique will usually be the only appropriate technique with which to estimate the fair value of a liability for an asset retirement obligation.”

Potential Improvements on Unrecognized AROs

18. Three potential improvements relative to unrecognized AROs that the Board could consider are as follows.
- (a) *Potential Improvement 1:* Clarifying the basis for not recognizing certain AROs and expressly stating that those circumstances are extremely rare
 - (b) *Potential Improvement 2:* Recognizing unrecognized AROs
 - (c) *Potential Improvement 3:* Enhancing disclosure.

Issue B: Measurement of AROs

Current GAAP

19. Paragraph 410-20-30-1 states that “an expected present value technique will usually be the only appropriate technique” to estimate the fair value of an ARO. Under this approach, expected cash flows are discounted using an entity-specific, credit-adjusted risk-free rate, inferred from the observable rate of a comparable liability with similar cash flow characteristics. Paragraph 410-20-35-1 states:

A liability for an asset retirement obligation may be incurred over more than one reporting period. Any incremental liability incurred in a subsequent reporting period shall be considered to be an additional layer of the original liability. Each layer shall be initially measured at fair value.

Each layer that is added to the ARO is measured with the method prescribed in paragraph 410-20-30-1, but the other layers of the ARO that have already been recognized are not remeasured solely due to the addition of a new layer.

20. Specific guidance for the subsequent measurement for changes in estimate of the ARO in paragraph 410-20-35-8 is as follows:

Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows shall be recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset. Upward revisions in the amount of undiscounted estimated

cash flows shall be discounted using the current credit-adjusted risk-free rate. Downward revisions in the amount of undiscounted estimated cash flows shall be discounted using the credit-adjusted risk-free rate that existed when the original liability was recognized. If an entity cannot identify the prior period to which the downward revision relates, it may use a weighted-average credit-adjusted risk-free rate to discount the downward revision to estimated future cash flows. When asset retirement costs change as a result of a revision to estimated cash flows, an entity shall adjust the amount of asset retirement cost allocated to expense in the period of change if the change affects that period only or in the period of change and future periods if the change affects more than one period as required by paragraphs 250-10-45-17 through 45-20 for a change in estimate.

21. Ultimate satisfaction of an ARO is not typically required until the associated asset is retired. As illustrated in paragraph 410-20-55-38, the obligation may ultimately be settled for an amount less than the amount recognized. This difference results in a gain at settlement.

Potential Improvements to Measurement of AROs

22. Potential improvements related to the measurement of AROs are to consider the use of entity-specific or market participant assumptions in the initial and subsequent measurement of an ARO or to consider the discount rate used in the measurement of an ARO.

Issue C: ARO Disclosures

Current GAAP

23. For recognized AROs, paragraph 410-20-50-1 contains the general disclosure requirements as follows:
 - (a) A general description of the obligations and their associated assets
 - (b) The fair value of legally restricted assets for settling that obligation
 - (c) A reconciliation of the beginning and ending aggregate carrying amount of AROs, showing significant changes in liabilities incurred or settled in the period, accretion expense, and any revisions to estimated cash flows.

Potential Improvements to Disclosure of AROs

24. The Board could consider potential improvements to disclosure, such as additional information about inputs related to the measurement of AROs. There may be costs to add disclosure requirements and additional outreach and research would need to confirm that potential new disclosures would provide investors with decision-useful information and that the expected benefits would justify the expected cost. Also, if the Board decides to pursue

improvements to disclosures, there may be an opportunity to identify other disclosures that do not provide useful information and replace them with more useful (and cost-beneficial) disclosures.

Agenda Criteria

25. The Board will evaluate a potential project related to the issues in Part One of this handout based on the following agenda criteria:
- (a) Is there an identifiable and sufficiently pervasive need to improve GAAP?
 - (b) Are there technically feasible solutions and are the perceived benefits of those solutions likely to justify the expected costs of change?
 - (c) Is there an identifiable scope?

Part Two: Agenda Request

Overview of Agenda Request and Related Outreach

26. In February 2025, the FASB received an agenda request asking for improvements and additional guidance relating to Topic 410. The requester stated that while Topic 410 “has been stable for 15 years,” there are some areas with diversity in practice. The requester also noted that amounts that have been reported for AROs and EOs have been stable or increasing year over year for large companies even though those companies have had years of related expenditures.
27. The agenda request describes guidance within both of the Subtopics in Topic 410—Subtopic 410-20 on AROs (which are described in Part One of this handout) and Subtopic 410-30 on EOs (which are loss contingencies). Paragraph 410-10-05-2 states that an environmental obligation is an “environmental remediation liability that results from the normal operation of a long-lived asset.” Additionally, the guidance indicates that whether an obligation results from the normal operation of a long-lived asset may require judgment and provides the following example to differentiate an ARO from an EO in paragraph 410-20-55-7:

410-20-55-7 Obligations that result from the normal operation of an asset should be predictable and likely of occurring. For example, consider an entity that owns and operates a nuclear power plant. That entity has a legal obligation to perform decontamination activities when the plant ceases operations. Contamination, which gives rise to the obligation, is predictable and likely of occurring and is unavoidable as a result of operating the plant. Therefore, the obligation to perform decontamination activities at that plant results from the normal operation of the plant.

28. The agenda request and additional stakeholder outreach identified improvements that are grouped into the following areas:
- (a) Issue D: Expanding the population of environmental costs for EOs
 - (b) Issue E: Enhancing recognition and subsequent measurement guidance for AROs and EOs
 - (c) Issue F: Clarifying the linkage to contingencies for EOs
 - (d) Issue G: Adding derecognition guidance for EOs
 - (e) Issue H: Providing additional implementation guidance for Subtopic 410
 - (f) Issue I: Other issues discovered during research and outreach.

Issue D: Expanding the Population of Environmental Costs for EOs

Background

29. The agenda request suggests costs that should be added to what is currently included in an EO.

Current Guidance

30. Paragraphs 410-30-30-10 and through 30-11 describe environmental costs that are included in the environmental obligation. Those costs include the following:
- (a) Incremental direct costs of the remediation effort
 - (b) Costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort, to the extent of the time expected to be spent directly on the remediation effort.
31. Remediation efforts include the following:
- (c) Precleanup activities, such as the performance of a remedial investigation, risk assessment, or feasibility study and the preparation of a remedial action
 - (d) Plan and remedial designs for a Superfund site, or the performance of a Resource Conservation and Recovery Act of 1976 facility assessment, facility investigation, or corrective measures studies
 - (e) Performance of remedial actions under Superfund, corrective actions under the Resource Conservation and Recovery Act of 1976, and analogous actions under state and non-U.S. laws

- (f) Government oversight and enforcement-related activities
- (g) Operation and maintenance of the remedy, including required postremediation monitoring.

Issue E: Enhancing Recognition and Subsequent Measure Guidance for AROs and EOs

Background

32. The agenda request suggests that specific “obligating events” and “recognition benchmarks” be incorporated into GAAP.

Current Guidance

33. As noted in paragraph 13 of this handout, AROs are recognized in the period in which the obligation is incurred if a reasonable estimate of fair value can be made.
34. Environmental obligation recognition is aligned with contingent loss guidance. Paragraph 410-30-25-1 states that EOs are recognized when the following two conditions are met:
- (a) Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements.
 - (b) The amount of the loss can be reasonably estimated.
35. Those are the same recognition conditions that are prescribed for contingent liabilities in paragraph 450-20-25-2. More specific recognition guidance relating to environmental obligations is found in paragraph 410-30-25-2. That paragraph outlines how these obligations generally become recognizable across a multitude of events and circumstances, rather than at one specific point in time. Specifically, that paragraph states:

An entity's environmental remediation obligation that results in a liability generally does not become determinable as a distinct event, nor is the amount of the liability generally fixed and determinable at a specific point in time. Rather, the existence of a liability for environmental remediation costs becomes determinable and the amount of the liability becomes estimable over a continuum of events and activities that help to frame, define, and verify the liability.

36. For an obligation to meet the probability assessment, paragraph 410-30-25-4 mirrors the criteria listed in contingent liability guidance (paragraph 450-20-25-2). Those two criteria must be met on or before the date the financial statements are issued or available to be issued. They are:

- (a) Litigation has commenced or a claim or an assessment has been asserted or, based on available information, commencement of litigation or assertion of a claim or an assessment is probable. In other words, it has been asserted (or it is probable that it will be asserted) that the entity is responsible for participating in a remediation process because of a past event.
 - (b) Based on available information, it is probable that the outcome of that litigation, claim, or assessment will be unfavorable. In other words, an entity will be held responsible for participating in a remediation process because of the past event.
- 37. Subtopic 410-30 also provides more specific guidance on how to apply the probability assessment to EOs, given that the nature of environmental obligations often requires legal determination of the likelihood of its occurrence. Specifically, paragraph 410-30-25-5 states “what constitutes commencement or probable commencement of litigation or assertion or probable assertion of a claim or an assessment in relation to particular environmental laws and regulations may require legal determination.”
- 38. To help with this legal determination, paragraph 410-30-25-6 provides two conditions commonly found in the legal framework within which most EOs arise. If both of those conditions are present, there is a presumption that the outcome of the associated litigation, claim, or assessment will be unfavorable. Those two conditions are:
 - (a) Litigation has commenced or a claim or an assessment has been asserted, or commencement of litigation or assertion of a claim or assessment is probable.
 - (b) The reporting entity is associated with the site—that is, it in fact arranged for the disposal of hazardous substances found at a site or transported hazardous substances to the site or is the current or previous owner or operator of the site.
- 39. After initial recognition and measurement, there are various scenarios that could cause an entity to subsequently remeasure the environmental obligation. Paragraphs 410-30-35-2 through 35-5 describe various circumstances in which an entity would remeasure its liability, which are summarized as follows:
 - (a) The negotiation of responsibility among potentially responsible parties
 - (b) The ability of other potentially responsible parties to fund the remediation effort
 - (c) Changes in laws
 - (d) Changes in technology
 - (e) Inflation
 - (f) Productivity improvements

- (g) Changes to the approved remediation methodology if it is probable that the revisions will be approved.

Issue F: Clarifying Environmental Obligation Linkage to Contingencies

Background

- 40. During additional outreach resulting from the agenda request, it was noted that citations from Topic 805, Business Combinations, allow for a contingent liability accounted for under Topic 450, Contingencies, and an environmental obligation to be remeasured as events change over time. That causes differences in measurement because environmental obligations are not specifically classified as contingencies in the Codification.
- 41. The only place in the Codification that explicitly states an EO is a loss contingency is paragraph 410-30-05-25, as follows.

Although environmental remediation liabilities is not one of the examples discussed in paragraph 450-20-05-10, environmental remediation liabilities are loss contingencies, and the discussion in paragraphs 450-20-55-10 through 55-17 can be useful in understanding the requirements of Subtopic 450-20 as they relate to environmental remediation liabilities.

Research and Outreach

- 42. This paragraph was codified from paragraph A-2 of Appendix A (also noted as paragraph 173) of [Statement of Position No. 96-1](#), *Environmental Remediation Liabilities*. Appendix A is titled “Current Authoritative Literature.”
- 43. The Overview and Background Sections within the Codification state:

The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

Issue G: Adding Derecognition Guidance

Background

- 44. The agenda request notes that there is no derecognition guidance for EOs in Subtopic 410-30, Asset Retirement and Environmental Obligations—Environmental Obligations, like there is in Subtopic 410-20 for AROs.

Issue H: Provide Additional Implementation Guidance

Background

45. The requester identified three areas that he suggested would be useful to include new or additional implementation guidance. Those areas are:
- (a) Nonenforcement of EOs
 - (b) Prompt performance of purchase price allocation procedures for AROs and EOs from Topic 805
 - (c) Prompt adjustment of AROs and EOs accruals when specific events occur.

Issue I: Other Issues Discovered During Research and Outreach

Background

46. Two additional issues were identified during discussions with the practitioners, investors, and preparers, as follows:

- (a) SEC guidance on EO discounting
- (b) Superfund remediation liability benchmark sequencing.

47. Contingencies, including EOs, are not required to be discounted. However, when contingencies are discounted, the SEC staff has provided guidance on the rate used when contingencies are discounted. Paragraph 450-20-S99-1 prescribes the discount rate to be used and states (in part):

The rate used to discount the cash payments should be the rate that will produce an amount at which the environmental or product liability could be settled in an arm's-length transaction with a third party. Further, the discount rate used to discount the cash payments should not exceed the interest rate on monetary assets that are essentially risk free FN48 and have maturities comparable to that of the environmental or product liability.

48. One practitioner raised a targeted improvement to the recognition benchmarks for a Superfund remediation liability, as described in paragraph 410-30-25-15. That practitioner noted that the benchmarks in that paragraph read as if they must happen in the order they are listed in that paragraph. This can delay recognition of an EO and in practice. This practitioner noted that the order in which certain events occur around Superfund remediation liabilities are not consistent with the order in which they are presented in the Codification (specifically, that benchmarks (c) and (d) can occur out of order).

49. Paragraph 410-30-25-14 provides direction on recognizing and EO based on the benchmarks in the paragraph that follows. Paragraph 410-30-25-14 states:

Certain stages of a remediation effort or process and of potentially responsible party involvement (see paragraph 410-30-05-24 for a discussion of these stages) provide benchmarks that should be considered when evaluating the probability that a loss has been incurred and the extent to which any loss is reasonably estimable. Benchmarks should not, however, be applied in a manner that would delay recognition beyond the point at which the recognition criteria in Subtopic 450-20 are met.

Agenda Criteria

50. The Board will evaluate a potential project related to the issues in Part Two of this handout based on the agenda criteria in paragraph 25 of this handout.