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## EXECUTIVE BRIEFING

### THE IMPACT OF FIN 47 (SO FAR)



#### Overview:

FASB Interpretation No. 47 ("FIN 47"), *Accounting for Conditional Asset Retirement Obligations*, became effective for companies with fiscal years ending after December 15, 2005. With reporting season for calendar year-end companies well under way, the financial impact of this interpretation is beginning to take shape.

#### Initial Key Takeaways:

1. **Financial Statement Impact Varies Widely Across Companies** – Within and without industries, companies are reporting quite disparate impact from the implementation of FIN 47. Take, for example, the Industrial Manufacturing industry, where United Technologies reported a \$95 million impact in 2005, while the impact on Caterpillar Inc. was immaterial.
2. **FIN 47 Resource Consumption Varies Widely Across Companies** – Based on our recent survey of Roundtable members, the number of man-hours spent implementing FIN 47 varies greatly – as man-hours reported ranges from six (6) to 5,000.
3. **Not all Companies are Estimating the Value of Identified Conditional AROs** – The vast majority of disclosure language either quantifies the fair value of identified conditional AROs or states that any such additional obligations are immaterial to the business – *however*, a select few companies have affirmatively stated that conditional AROs have been identified but remain un-estimable.

#### *Why the Disparate Impact?*

The emerging disparity in financial statement and resource consumption impact across companies is likely the result of some combination of differences in:

- (i) historical approaches to FAS 143;
- (ii) interpretation of materiality thresholds for testing assets; and
- (iii) conclusions as to whether an identified ARO is estimable.

#### Disparate Financial Statement Impact:

The Roundtable's Accounting Practice Exchange (APEX) sampled 166 public filings since January 15, 2006 that included some form of FIN 47 disclosure. APEX limited its review to companies with annual revenues of at least \$500 million. In a nutshell, this review found that the aggregate financial statement impact of FIN 47 on these sampled companies is in excess of \$2.2 billion, but that across (and within) industries and revenue bands, the financial statement impact varies widely from no effect to quite substantial amounts. The following are some individual examples:

<u>Industry</u>	<u>Company Name</u>	<u>2005 Revenues (in millions)</u>	<u>FIN 47 Impact (in millions)</u>
Aerospace & Defense	Boeing Corp.	\$54,000	\$4
Aerospace & Defense	Honeywell International Inc.	\$27,700	\$21
Aerospace & Defense	Goodrich Corp.	\$5,400	Immaterial
Banking	Citigroup Inc.	\$120,300	\$49
Banking	JP Morgan Chase	\$79,900	Immaterial
Consumer Products	Kimberly-Clark Corp.	\$15,900	\$12.3

Consumer Products	Eastman Kodak	\$14,200	\$57
Consumer Products	Whirlpool Corp.	\$13,400	Immaterial
Energy & Utilities	Valero Energy Corp.	\$82,200	Immaterial
Energy & Utilities	PG&E Corp.	\$11,700	\$202
Energy & Utilities	Wisconsin Energy Corp.	\$3,800	\$38.4
Energy & Utilities	El Paso Corp.	\$4,000	Immaterial
Industrial Manufacturing	United Technologies	\$42,700	\$95
Industrial Manufacturing	Caterpillar Inc.	\$36,300	Immaterial
Industrial Manufacturing	Crane Co.	\$2,000	Immaterial
Metals & Mining	Olin Corp.	\$2,400	\$6.4
Metals & Mining	Alcoa Inc.	\$26,100	\$2
Retail	Trans World Entertainment Co.	\$1,400	\$2.3
Retail	Applebees	\$1,200	Immaterial
Telecommunications	AT&T	\$43,800	Immaterial
Telecommunications	American Tower Co.	\$1,000	\$35.5

*Why the disparity?* A more complete analysis of each company's facts and circumstances would be required to evaluate more precisely what causes individual differences in the impact of FIN 47. However, based on a preliminary review of public filings and discussions with Roundtable members, the following three (3) reasons are emerging as primary drivers:

- (i) historical approach to FAS 143;
- (ii) interpretation of materiality thresholds for testing assets; and
- (iii) conclusions as to whether an identified ARO is estimable.

*A complete list of the companies sampled may be found at the end of this Executive Brief. The public filings reviewed include earnings releases filed as exhibits to Periodic Reports on Form 8-K and disclosure language included in Annual Reports on Form 10-K. The review was not intended to be a comprehensive study of all public filings, rather, the goal was to sample enough filings across a variety of industries to gain a better understanding of what trends may be emerging.*

#### **Disparate Impact on Resource Consumption:**

In early March 2006, APEx surveyed Roundtable members and inquired about the level of resource consumption attributable to the implementation of FIN 47. Like the financial statement impact of FIN 47, the impact on resource consumption varies greatly – survey responses ranged from a resource consumption of six (6) man-hours in total for one \$3 billion Energy & Utilities company to 5,000 man-hours for a \$13.6 billion Energy & Utilities company. Unfortunately, almost half of our respondents have not yet publicly released information relating to the financial statement impact of FIN47, so it is too early to discuss any potential correlation between man-hours consumed and financial statement impact.

The following are the detailed responses:

Company/Entity	Man-Hours Spent Implementing FIN 47	% of Time Spent Researching Interpretation	% of Time Spent Identifying AROs	% of Time Spent Measuring Value of Identified AROs
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$10–15 Billion</i>	5,000	17	5	45
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$50–100 Billion</i>	160	40	40	20
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$15–20 Billion</i>	2,150	70	10	20
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$1–5 Billion</i>	750	10	30	60
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$1–5 Billion</i>	6	67	33	0
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$1–5 Billion</i>	120	40	45	15
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$1–5 Billion</i>	1,100	20	65	15
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$1–5 Billion</i>	224	7	89	4
<i>Energy &amp; Utilities Company</i> <i>Revenues: \$1–5 Billion</i>	2,400	8	90	2
<i>Retail Company</i> <i>Revenues: \$1–5 Billion</i>	130	20	60	20
<i>Retail Company</i> <i>Revenues: \$1–5 Billion</i>	110	55	36	9
<i>Retail Company</i> <i>Revenues: \$1–5 Billion</i>	100	50	30	40
<i>Food Company</i> <i>Revenues: \$10–15 Billion</i>	40	25	50	25
<i>Automotive &amp; Transport</i> <i>Revenues: \$1–5 Billion</i>	80	25	10	50
<i>Environmental Services</i> <i>Revenues: \$1–5 Billion</i>	80	50	30	20
<i>Electronics Company</i> <i>Revenues: \$10–15 Billion</i>	60	50	33	17
<b>Average:</b>	<b>782</b>	<b>35%</b>	<b>41%</b>	<b>23%</b>
<b>Median:</b>	<b>125</b>			

**Not All Companies are Estimating the Value of Conditional AROs Identified:**

It is apparent that a vast majority of companies sampled have either (i) taken "to heart" the Interpretation's strong preference for estimating the fair value of identified conditional AROs or (ii) publicly side-stepped the issue by concluding the fair value is immaterial. However, a small percentage of companies affirmatively disclosed that conditional asset retirement obligations have been identified but that the company cannot reasonably estimate the fair value of the settlement obligations and, thus, have not recognized all or a certain portion of these conditional obligations.

The following are three examples of such filers (and the relevant disclosure excerpt):

<u>Company</u>	<u>Disclosure</u>
<p><b>Oregon Steel Mills Inc.</b>  <i>Annual Report on Form 10-K, filed March 1, 2006</i></p>	<p>"As the Company does not intend to change the structural configuration on any of its properties in a way that would require the removal and disposal of the asbestos, the Company cannot reasonably estimate the fair value of those activities."</p>
<p><b>Occidental Petroleum Corp.</b>  <i>Annual Report on Form 10-K, filed March 1, 2006</i></p>	<p>"Occidental has identified conditional asset retirement obligations at a certain number of its facilities that are mainly related to plant decommissioning. Under FIN 47, which Occidental adopted on December 31, 2005, Occidental is required to record the fair value of these conditional liabilities if they can be reasonably estimated. However, Occidental believes that there is an indeterminate settlement date for these asset retirement obligations because the range of time over which Occidental may settle these obligations is unknown or cannot be estimated. Therefore, Occidental cannot reasonably estimate the fair value of these liabilities. Occidental will recognize these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate their fair values."</p>
<p><b>Citizens Communications Co.</b>  <i>Annual Report on Form 10-K, filed March 1, 2006</i></p>	<p>"Although a liability exists for the removal of poles and asbestos, sufficient information is not available currently to estimate our liability, as the range of time over which we may settle these obligations is unknown or cannot be reasonably estimated."</p>
<p><b>Northwest Natural Gas Co.</b>  <i>Annual Report on Form 10-K, filed March 1, 2006</i></p>	<p>"The Company has evaluated all potential conditional asset retirement obligations and has concluded that the Company's only estimable conditional asset retirement obligation as defined in FIN 47 is the purging and sealing of pipe greater than 4 inches in diameter."</p>

**Filings Reviewed:**

The following is a list of companies whose filings were reviewed during the research process:

3M Company	Constellation Energy	LaFarge North America Inc.	Qwest Communications International
AGL Resources Inc.	Corn Products International Inc.	Lance Inc.	Rohm & Haas Co.
AK Steel Holding Corp.	Crane Co.	Lear Corp.	RR Donnelley & Sons Co.
Alaska Air Group Inc.	Crown Castle International Corp.	Leggett & Platt Inc.	Ryder System Inc.
Alcan Inc.	Detriot Edison Co.	Level 3 Communications Inc.	Sempra Energy
Alcoa Inc.	Dominion Resources Inc.	Lexmark International Inc.	Simon Property Group Inc.
Allegheny Technologies Inc.	Dow Chemical Co.	Lincoln Electric Holdings	Simpson Manufacturing Co. Inc.
Allied Waste Industries Inc.	DPL Inc.	Liz Claiborne Inc.	Solutia Inc.
Alltel Corp.	Duke Energy Corp.	Loews Corp.	Southern Company
Amazon.com	Eastman Kodak Co.	Mack Cali Realty Corp	Soutwest Gas Corp.
AMC Entertainment	El Paso Corp.	Masco Corp.	Sprint Nextel Corp.
Amerada Hess Co.	Eli Lily & Co.	Maxtor Corp.	Stepan Co.
Ameren Corp.	Enbridge Energy Partners	MDU Resources Group Inc.	Sunoco Inc.
American Tower Corp.	Endo Pharmaceuticals Holdings Inc.	Meadwestvaco Corp.	Technitrol Inc.
AO Smith Corp	Exelon Corporation	Minerals Technologies Inc.	Technitrol Inc.
Apartment Investment & Management Co.	Fastenal Co	Molson Coors Brewing Co.	Temple-Inland Inc.
Applebees Inc.	First Energy Corp.	New Plan Excel Realty Trust Inc.	Tenet Healthcare Corp.
Arch Chemicals Inc.	Fisher Scientific International Inc.	New York Times Co.	TEPPCO Partners LP
Archstone Smith Trust	FMC Corp.	Newmont Mining Corp.	Tesoro Corp.
Arden Group Inc.	Ford Motor Co.	Nexen Inc.	Trans World Entertainment Corp.
Armstrong World Industries Inc.	Fossil Inc.	NiSource Inc.	TXU Corp.
AT&T	Frontier Oil Corp.	Northwest Natural Gas Co	UIL Holdings Corp.
Autonation Inc.	General Motors	Novo Nordisk AS	Union Pacific Corp.
Baker Hughes Inc.	Genuine Parts Co.	NSTAR	United Technologies Corp.
Boeing Corp.	Genzyme Corp.	O Charleys Inc.	Universal Forest Products Inc.
Borgwarner Inc.	Goodrich Corp.	OGE Energy	USG Corp.
Bowater Inc.	Goodyear Tire & Rubber Co.	Olin Corp.	Valero Energy Corp.
Brinks Co.	Granite Construction Inc.	ON Semiconductor Corp.	Viad Corp.
Broadwing Corp.	Graphic Packaging Corp.	Oregon Steel Mills Inc.	Warnaco Group Inc.
Canadian National Railway Co	Hanover Compressor Co.	Owens Corning	Washington Group International Inc.
Carramerica Realty Corp.	Hercules Inc.	Pacer International Inc.	Waste Connections Inc.
Caterpillar Inc.	Hexcel Corp.	Pfizer Inc.	Watts Water Technologies Inc.
CDW Corp.	Honeywell International Inc.	PG&E Corp.	Wells Fargo & Co.
Cendant Corp.	Hubbell Inc.	Pharmaceutical Product Development Inc.	Westlake Chemical Corp
Central Hudson Gas & Electric	Huntington Bancshares Inc.	Phelps Dodge Corp.	Whirlpool Corp.
Citigroup Inc.	Huntsman Corp.	Pioneer Natural Resources	Williams Companies
Citizens Communications Co.	IBM	Plains All American Pipeline LP	Wisconsin Energy Corp.
Cleveland Cliffs Inc.	Ingersoll Rand Co Ltd	Plains Exploration & Production Co.	WPS Resources Corp.
Coca Cola Enterprises Inc.	Insight Enterprises Inc.	PPL Electric Utilites Corp.	WW Grainger Inc.
Commonwealth Edison Co.	Jarden Corp.	Praxair, Inc.	Xerox Corp.
Community Health Systems	JP Morgan Chase	Public Service Electric & Gas Co.	
Consolidated Edison Co. of NY Inc.	Kimberly-Clark Corp.	Questar Corp.	

**Professional Services Note**

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