

**The New Dynamic:  
Financial Accounting Standards Board (FASB) Rule # 143,  
Sarbanes-Oxley and All Appropriate Inquiry**

**Summary of Rules Changes and Potential Impacts**

- **Changes in Accounting Standards FASB # 143:** Accounting for Asset Retirement Obligations (ARO's). FASB's position: changes are needed to increase the informational content of financial statements.
- **A New Dynamic** with potential to significantly impact the brownfield redevelopment momentum.
- **The Immediate Impact: Businesses owning environmentally challenged properties** or mothballed facilities will no longer be able to defer the financial impact implied by the property's environmental condition. Publicly traded companies must record the future discounted value of the property on their balance sheet as of December 15, 2005. Privately held companies will be subject to rules changes effective July 1, 2006.
- **Business must take an immediate expense charge for the cost of site clean-up.** This could potentially produce a negative impact on earnings, and stock values.
- **Failure to comply is punishable under Sarbanes-Oxley:** Section 404 requires an independent audit of a firm's internal controls. Failure to comply could risk a deficiency control, requiring the company to disclose a material weakness for environmental reporting, opening the company to SEC investigation, lawsuits, and shareholder suits.
- **D&O insurance pollution exclusion:** providers are prohibited from covering director and officer liability under a "pollution exclusion".
- **Loopholes:** allowing businesses to warehouse brownfield properties will be eliminated, motivating property owners to consider brownfield redevelopment strategies.
- **Many companies will be forced to rethink their asset management strategy** to comply with the generally accepted accounting principals as well as the rigorous fair disclosure regulations mandated by the Sarbanes-Oxley act.
- **The prevailing wisdom:** companies will vigorously pursue clean-up, and then place those properties on the market.

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- **The final loophole prevention element is attributed to *All appropriate Inquiry*:** AAI requires an assessment and evaluation of property before transfer of ownership. This daylights the condition of such properties while providing protection to potential purchasers.
- **Companies will be motivated to take action including:**
  - Bringing** financial statements into compliance
  - Pursuing** clean-up action
  - Negotiating** fixed-price remediation contracts
  - Purchasing** environmental insurance
  - Transferring** sites to brownfield redevelopment companies