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Reporting Responsibilities for Environmental Remediation Liabilities

Alan Reinstein and Gerald H. Lander

The American Association of Certified Public Accountant's (AICPA) Accounting Standards Executive Committee issued Statement of Position (SOP) (1996) No. 96-1, *Environmental Remediation Liabilities*, to help entities recognize certain environmental costs. The SOP requires that in measuring their allocable liabilities for a specific site, entities should consider enacted laws, existing regulations, policies, and current remediation technologies as well as liabilities that the government or other potentially responsible parties (PRPs) will probably not pay. Entities may discount estimated

liabilities to reflect the time value of money if the aggregate amount of obligation and timing of cash payments for a site are fixed or reliably determinable, with similar treatment for expected recoveries from insurers and other third parties.

With one major exception, the SOP does not expand existing generally accepted accounting principles (GAAP) since its theoretical definitions for recognizing a liability rely primarily upon the provisions of Statement of Financial Accounting Standard (SFAS) No. 5 (1975), *Accounting for Contingencies*, paragraph 8 (which requires recording "measurable" contingent liabilities whose likelihood of realization are "probable"), and Financial Accounting Standards Board (FASB) Interpretation No. 14 (1976), *Reasonable Estimation of the Amount of a Loss—An Interpretation of Financial Accounting Standards Board (FASB) Statement No. 5*, paragraph 3 (which addresses accounting for circumstances where the reasonable estimate of a loss is a range). The SOP does

not address accounting for pollution control costs for current operations, costs of future site restoration, or closure costs required upon cessation of operations or sale of facilities. The FASB is now considering these issues as a distinct project. The SOP reflects the increasing emphasis on accounting for, and disclosing, environmental remediation liabilities. Hence, both public and private companies and their accountants should be increasingly vigilant in both areas to protect themselves in today's litigious society.

Environmental Laws

U. S. regulated entities must comply with over 11,000 pages of federal regulations governing the environment, plus individual state and local government regulations. Some key regulations include

1. *The Congressional Comprehensive Environmental Response, Compensation and Liability Act of 1980* (EPA . . . , 1999) (CERCLA) or "Superfund," the Superfund

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Amendment and Re-Authorization Act of 1986, plus many other state versions of these acts, impose strict liability on site owners, transporters, and generators of hazardous substances. Strict liability ignores the potentially liable party's "fault." Superfund liability also is joint and several, making any party deemed liable potentially responsible for the entire cleanup. For example, a firm disposing of its hazardous wastes in accordance with all then-current requirements at approved facilities cannot claim a "due care" defense. Furthermore, "innocent" third-parties are subject to costs of waste disposal, even if they were not involved in the hazardous waste discharge (e.g., a new owner or operator will generally have little protection as a result of warranties or indemnities received from a seller). Liability has even recently been extended to lenders of parties subject to environmental laws and regulations when the lender has effectively functioned as a member of management of the PRP. Dupree and Jude (1995) note that bankruptcy laws often offer little protection from such environmental liabilities.

2. *The Resource Conservation and Recovery Act (RCRA) of 1976* (U. S. EPA . . . , 1976) provides for comprehensive federal regulation of hazardous waste from point of generation to final disposal and is applicable to all generators and transporters of hazardous waste

and owners and operators of hazardous waste treatment, storage, and disposal sites. It also mandates the EPA to regulate underground storage tanks.

3. *The Clean Water Act of 1972* (U. S. EPA . . . , 1976) requires all facilities that emit pollutants into U. S. waters to obtain applicable permits. Traditional large polluters—such as utilities—as well as agriculture, construction, dry cleaning, and mining entities face cleanup, injunctive, and cost-recovery actions where an imminent pollution hazard exists. Furthermore, recent federal court decisions, especially the *U. S. v. Weitzenhoff* (1994) matter, have imposed strict criminal liabilities (e.g., substantial prison sentences for first-time offenders), even for unintentional violations of operating permits. The government must prove merely that the discharge permit was violated and that the defendants knew their actions resulted in the discharge. The defendants cannot claim that they did not know they violated the limitations specified by the permit.

Valdez Principles

The Coalition for Environmentally Responsible Economies (CERES) has recently announced that many entities have adopted the *Valdez Principles* (CERES, 2000). Under these principles, boards of directors and chief executive officers are fully responsible for all environmental matters. Some companies establish board of director committees, responsible

for environmental affairs, in which at least one board member will be qualified to represent company environmental interests. A summary of the principles, which CERES wishes all publicly traded and other large entities to adopt as part of their corporate charters, follows.

1. *Protection of the Biosphere:* We will strive to eliminate the release of any pollutant that may cause environmental damage to the air, water, earth, or its inhabitants. We will safeguard habitats in rivers, lakes, wetlands, coastal zones, and oceans and will minimize contributing to the greenhouse effect, depletion of the ozone layer, acid rain, and smog.
2. *Sustainable Use of Natural Resources:* We will make sustainable use of renewable natural resources, such as water, soils, and forests. We will conserve nonrenewable natural resources through efficient use and careful planning. We will protect wildlife habitat, open spaces, and wilderness, while preserving biodiversity.
3. *Reduction and Disposal of Waste:* We will minimize the creation of waste, especially hazardous waste and, wherever possible, recycle materials. We will dispose of all wastes through safe and responsible methods.
4. *Wise Use of Energy:* We will make every effort to use environmentally safe and sustainable energy sources to meet our needs. We will invest in improved energy efficiency and conservation in our operations and will

maximize the energy efficiency of products we produce or sell.

5. *Risk Reduction*: We will minimize the environmental, health, and safety risks to our employees and the communities in which we operate by using safe technologies and operating procedures and by being constantly prepared for emergencies.
6. *Marketing Safe Products and Services*: We will sell products and services that minimize adverse environmental impacts and that are safe as consumers commonly use them. We will inform consumers of the environmental impacts of our products or services.
7. *Damage Compensation*: We will take responsibility for any harm we cause to the environment by making every effort to fully restore the environment and to compensate those persons who are adversely affected.
8. *Disclosure*: We will disclose to our employees and to the public incidents relating to operations that cause environmental harm or pose health or safety hazards. We will disclose potential environmental, health, and safety hazards posed by a company's operations, and we will not take any action against employees who report any condition that creates a danger to the environment or poses health and safety hazards.
9. *Environmental Directors and Managers*: We will commit management resources to

implement the *Valdez Principles*, to monitor and to sustain a process to ensure that the board of directors and chief executive officer are kept informed of, and are fully responsible for, all environmental matters. We will establish a committee of the board of directors with responsibility for environmental affairs, including at least one director qualified to represent environmental interests that come before the company.

10. *Assessment and Annual Audit*: We will conduct and make public an annual self-evaluation of our progress in implementing these *Principles* and in complying with all applicable laws and regulations throughout our worldwide operations. We will work toward the timely creation of independent environmental audit procedures, which we will complete annually and make available to the public (2000).

Accounting Guidance

The issuance of SOP 96-1 (1996) did not affect the following accounting pronouncements that require measuring and disclosing environmental remediation liabilities.

- FASB Statement No. 5 (1975), *Accounting for Contingencies*;
- FASB Interpretation No. 14 (1976), *Reasonable Estimation of the Amount of a Loss—An Interpretation of FASB Statement No. 5*;
- FASB Interpretation No. 39 (1992), *Offsetting of Amounts Related to Certain Contracts*;

- Accounting Principles Board (APB) Opinion No. 20 (1971), *Accounting Changes*;
- EITF Issue No. 90-8 (1993), *Capitalization of Costs to Treat Environmental Contamination*;
- AICPA SOP 94-6 (1994), *Disclosure of Certain Significant Risks and Uncertainties*; and
- EITF Issue No. 89-13 (1989), *Accounting for the Cost of Asbestos Removal*.

Securities and Exchange Commission (SEC) registrants must also comply with the requirements of *Staff Accounting Bulletin* No. 92 (issued in June 1993), which discusses SEC views on recognizing and disclosing environmental remediation liability costs (when reasonably estimating such losses is a range) as well as offsetting potential recoveries against probable losses and discounting future remediation costs.

SOP 96-1 (1996) supersedes the provisions of *Emerging Issues Task Force (EITF) Issue No. 93-5* (1993) to help clarify the guidance of other sources of authoritative standards, particularly certain parts of SFAS No. 5 (1975) regarding defining "probable" environmental remediation efforts. It also expands the types of costs that may be appropriately accrued and the ability to consider technologies under development in order to assess the ultimate cost of remediation efforts more accurately.

Accounting Requirements of the SOP

Entities should consider the SOP's accounting provisions and

accrue contingencies when available information indicates that an entity incurred such a liability whose amount can be estimated reasonably.

Probability of Loss

Per the provisions of SFAS No. 5 (1975), entities should accrue environmental remediation liabilities when these two conditions are met:

1. An assertion has been, or will be, made that the entity is responsible for participating in a remediation process as a result of a past event; and
2. The outcome of the pending or potential action will probably be unfavorable.

Entities should determine what legally constitutes this potential liability relative to a particular environmental law or regulation at a particular, contaminated site.

Reasonable Estimation of a Loss

Due to the nature of environmental remediation contingencies, estimating losses is an ongoing process that generally will result in significant revisions in estimates over the remediation project's life. Factors integral to developing estimates of the liability include

- the extent and types of hazardous substances at a site;
- the range of technologies that can be used for remediation;
- evolving standards of what constitutes acceptable remediation; and
- other PRP's financial status and extent of responsibility to remediate the site (or extent and types of hazardous

substances they added to the site).

While estimating a liability at the early stages of remediation may be difficult due to various available remediation strategies, the associated costs may be available or reasonably estimable. Thus, while a broad range of estimates may exist, the minimum clean-up cost and resultant recognizable amounts are often significant.

Benchmarks

SOP 96-1 (1996) identifies five minimum benchmarks to consider in evaluating the probability that a reasonable measurable loss has occurred.

Identification and Verification of the Entity as a PRP

Entities receiving notice that they may be a PRP should first examine their records to determine if they were associated with the site. Entities will probably incur liabilities if they were associated with the site; however, at early stages, reasonably estimating such losses may be impossible unless the entity previously was involved in similar remediation efforts.

Receipt of a Unilateral Administrative Order

This indicates that an imminent and substantial endangerment exists at a site and compels an entity to take specific actions or face penalties of up to four times the applicable costs. Such ordered actions range from performing specific remedial investigation and feasibility studies (RI/FS) to removal actions, or such general

acts as "remediating" a site. While estimating costs associated with each type of required action varies with the factors discussed previously, the costs of performing removal actions generally are estimable within a range and should, thus, be accrued.

Participation as a PRP in the RI/FS

Generally, the costs incurred to perform a study are estimable within a range; hence, the entity should accrue its proportionate share of such costs. Additional information may be available at this stage regarding the extent of environmental impact and possible remediation alternatives that could provide a reasonable basis for estimating the total remediation liability.

Completion of the Feasibility Study

At the completion of the study, the minimum remediation liability, based on a range of potential strategies, should be available thus allowing the entity to estimate its allocated share.

Issuance of Record of Decision

At this stage, the EPA formally determines the preferred remedy. The entity can refine its estimate of the remediation costs based on the EPA's preferred remedy.

Remedial Design Through Operation and Maintenance, Including Post-remediation Monitoring

At this stage, engineers develop detailed plans of the needed work in order to provide more precise estimates of total

remediation costs. This stage helps the entity refine and recognize its best estimate of its final obligation.

Measurement of the Environmental Costs

Complications ensue in the evaluation of liabilities when a site may contain many contaminants, a wide range of cleanup technologies might be used, and incomplete information to estimate such liabilities may exist. Furthermore, the EPA has broad discretion to determine an "acceptable cleanup." Since the Superfund remedial action is decentralized, a remedy may be evaluated differently between EPA regions or could require different remedies with different costs for similar pollution circumstances.

Measurement of a Loss

The SOP requires recognizing a liability for both incremental direct costs of the remediation effort and compensation and benefits for employees who devote time to the remediation effort. This effort includes pre-cleanup activities such as performing the RI/FS, preparing a remedial action plan and remedial designs for a Superfund site, assessing an RCRA facility's performance, or performing an RCRA facility investigation or corrective measures study; performing remedial actions under Superfund, corrective actions under RCRA and analogous actions under state and non-U. S. laws; government oversight and enforcement-related activities; and operation and maintenance of the remedy, including post-remediation monitoring.

Costs to Include

Per the provisions of SOP 96-1 (1996), appropriate employee compensation and benefit costs include the time of in-house legal counsel and technical employees who help determine the extent of remedial accounts, the type of remedial action to be used, the allocation of costs among PRPs, and actual remediation activities. Accruing costs related to personnel and services that the entity performed represents a significant change from existing GAAP, which usually requires expensing such costs as incurred. Other incremental costs include

- fees to outside law firms for work related to the remediation effort (however, companies need not accrue the costs of defending a liability judgment);
- costs related to completing the RI/FS;
- fees to outside engineering and consulting firms for site investigations, development of remedial action plans, and remedial designs;
- costs of contractors performing remedial action plans;
- government oversight costs and past costs, which are usually based on costs incurred by the EPA or other governmental authority dealing with the site;
- costs of machinery or equipment dedicated to the remedial actions that have no alternative use;
- PRP group assessments for costs the group incurred to deal with the site; and
- operating and maintenance costs of the remedial action, including post-remediation monitoring costs required by the remedial action plan.

Allocation of Costs

To identify its share of total estimated liability, again per the provisions of SOP 96-1 (1996), an entity should determine all PRPs who are involved at the particular site and thus face potential remediation liabilities. Such parties usually belong to one of five PRP categories.

1. *Participating PRPs* acknowledge their potential involvement regarding the site;
2. *Recalcitrant PRPs* deny involvement with respect to a site despite evidence showing their involvement;
3. *Unproven PRPs* have been identified as PRPs but do not acknowledge involvement since no substantive evidence links them to the site;
4. *Parties not yet identified as PRPs* may have contributed to the contamination of a site but are not usually identified until additional investigation of the site occurs or as remediation activities occur; and
5. *Unavailable or insolvent PRPs* have been identified as contributing to the contamination but either cannot be located or have no money so that they cannot contribute to the cleanup efforts.

Participating PRPs should generally allocate remediation liabilities using one of four principal factors.

1. *Elements of fair share.* Allocate the liability among PRPs based on the amount of waste using such bases as hazardous volume, mass, type of waste, toxicity of waste, or length of time the site was used;

2. *Classification of PRP.* Allocate costs depending on classification as site owner, site operator, transporter of waste, or generator of waste;
3. *Limitations on payments.* Limit the extent of a party's contribution to the total remediation cost under statute or regulation, such as limitations on the liability of a state or local government regardless of the contribution to the contamination; or
4. *Degree of care.* Allocate liability based on the degree of care exercised in selecting a site or transporter.

Primary sources to help estimate such allocations for the remediation effort include agreements that the PRPs reached, consultant reports, and EPA determinations. An entity using an estimate that differs from the allocation methods and percentages provided by such sources must objectively and verifiably support its estimate, as well as assessing other participating PRPs' contributions based on their financial conditions. If it concludes that other PRPs will or cannot contribute to the remediation, the entity should include its share of the other PRPs' liability in its own liability.

Impact of Recoveries

Potential recoveries from insurers, non-participating PRPs, and governmental or third-party funds should be recognized only when realization of the claim is deemed probable. Claims subject to litigation create a rebuttable presumption that realization of the claim is not probable.

Measurement of any recovery may be made similar to the measurement of the related liability, based either on the fair value of amounts expected to be received or at gross amounts if the recovery does not meet the conditions required for discounting.

Other Considerations

The SOP concluded that environmental remediation liabilities should be based on existing laws and adopted regulations, and policies, with any changes in laws, regulations, and policies recognized at the time of enactment or adoption. The exposure draft of the SOP noted that measurements should be based on existing remediation technology; however, to be consistent with the FASB's proposed statement on closure and removal costs associated with long-lived assets, the Accounting Standards Executive Committee (AcSEC) allowed entities to consider advances in technology that are expected to be available for use in the near term. To measure its liability, an entity should consider its expected remediation efforts, including estimating such factors as inflation, productivity improvements due to learning from experience with similar sites, and remediation plans. Entities may "discount" their liabilities or components thereto if the aggregate amount of the liability and amount and timing of the cash payments are fixed or reliably determinable; however, the cost estimate should be based on a site-specific plan, and the amount and timing of cash payouts should be based on objective and verifiable information. Since the SOP

provides no specific guidance for the appropriate discount rate for non-publicly-held companies, SAB No. 92 (1993) contains the most appropriate guidance. SAB No. 92 (1993) requires using a rate that will produce an amount at which the environmental liability theoretically could be settled in an arm's-length transaction with a third party or, if such a rate is not readily determinable, the discount rate used should not exceed the interest rate on risk-free monetary assets with maturities comparable to the environmental liability.

Financial Statement Presentation and Disclosure

Consistent with the guidance in SAB No. 92 (1993), the SOP prohibits netting potential recoveries against the related remediation liability in the balance sheet unless all of the conditions expressed in FASB Interpretation No. 39 (1992) are met—circumstances which rarely occur.

Charges related to recording environmental remediation liabilities should become part of operating income as events underlying the occurrence of the obligation relate to an entity's operations and reflect that environmental remediation-related expenses have become a regular cost of conducting business. Recoveries from insurance, governments, or other third-parties would be reflected in the same income statement line.

Recommended Disclosures

SOP 96-1 (1996) recommends that entities disclose events or

sets of circumstances that generally trigger recognizing loss contingencies that arise out of their environmental remediation-related obligations, and disclose their policies concerning the timing of recognizing recoveries. Regarding recorded accruals for environmental remediation liabilities, entities are encouraged to disclose their

- estimated time to realize recognized recoveries whose realization is not expected in the short-term;
- estimated time frame of disbursements when recorded amounts are expected to be paid over an extended period; and
- other information regarding specific sites, including total costs accrued for the site; the nature of any "reasonably possible" loss contingency; estimated possible, additional losses, or a statement of why such estimates cannot be made; involvement of other PRPs; the status of regulatory proceedings; and estimated time needed to resolve the contingency.

Empirical Study

To explore the impact of SOP No. 96-1 (1996) on business entities and to measure the extent of their agreement with its provisions, the authors surveyed four major groups who will most likely be affected greatly by its provisions. These groups are CPAs who audit companies with major potential environmental liabilities (e.g., in the lumber and utilities industries); chief financial officers (CFOs) whose firms must make major

environmental disclosures; management accountants (MA) from the Institute of Management Accountants membership list who must gather relevant information and calculate the ranges of various costs; and financial analysts (FA) selected from the Association for Investment Management and Research's *Membership Directory* (1998). Questionnaires were mailed to 80 members from each group for a total of 320.

Based upon the review of the provisions of SOP No. 96-1 (1996), the authors developed a preliminary survey instrument. Specifically, based upon an analysis of the provisions of SOP 96-1 and a review of the literature, ten sets of questions that help measure how key financial groups respond to this new pronouncement were developed. The pilot questionnaire was then pretested and revised based upon comments from four chief financial officers, seven CPAs, six financial analysts, ten management accountants, and eight accounting professors.

To obtain a high response rate, all correspondence was hand-signed, four waves of response requests were used, including pre-notification letters, and postage stamps were applied on envelopes both to and from the respondents. One hundred sixty-five usable responses were received (from 45 CPAs, 38 CFOs, 37 MAs, and 45 FAs), resulting in an overall 51.5% response rate.

While achieving a relatively high response rate, the authors

tested for non-response bias using (1) the early-late hypothesis (Oppenheim, 1966) and (2) a comparison of known characteristics of respondents and non-respondents (Ferber, 1948). The results indicate no significant ($p < .05$) differences between early and late respondents, suggesting strongly that no significant non-response bias occurred.

Respondents used a seven-point Likert scale (1 indicating strong agreement and 7 strong disagreement) to indicate their degree of agreement or disagreement to statements addressing the key issues. A summary of the sample means appears in Table 1.

Where the ANOVA indicated significant differences ($p < .05$) among mean responses of the various treatment groups, Scheffe's multiple comparison test was used to determine which groups had statistically significant differences. A summary of the results of using Scheffe's test is provided in Table 2.

Results and Observations

Table 1 presents and summarizes the responses, with Scheffe's test results shown in Table 2. The results showed only two sets of significant differences among the four groups of respondents. In Question No. 6, CFOs (1.77) versus the other three groups (CPAs: 2.89, MAs: 3.15, and FAs: 2.45) generally agreed more strongly with the requirement that environmental remediation liabilities be based on existing laws and practices

TABLE 1
MEAN RESPONSES OF GROUPS SURVEYED*

| QUESTIONS | GROUP RESPONSE | | | | |
|-----------|--|--|---|---|----------------|
| | CERTIFIED PUBLIC ACCOUNTANT _s (45) | CHIEF FINANCIAL OFFICER _s (38) | MANAGEMENT ACCOUNTANT _s (37) | FINANCIAL ANALYST _s (45) | TOTAL (165) |
| Q1 | 1.75 | 1.92 | 1.38 | 1.34 | 1.60 |
| Q2 | 1.45 | 1.32 | 1.37 | 1.86 | 1.51 |
| Q3 | 4.25 | 4.75 | 4.52 | 4.17 | 4.40 |
| Q4 | 2.15 | 2.35 | 2.01 | 2.84 | 2.35 |
| Q5 | 1.35 | 1.45 | 1.72 | 1.55 | 1.51 |
| Q6 | 2.89 | 1.77 | 3.15 | 2.45 | 2.57 |
| Q7 | 3.71 | 4.05 | 3.86 | 3.67 | 3.81 |
| Q8 | 1.97 | 2.14 | 1.84 | 2.20 | 2.04 |
| Q9 | 3.15 | 1.98 | 2.45 | 2.71 | 3.38 |
| Q10 | 3.74 | 4.14 | 3.91 | 4.05 | 3.95 |

* Scaling and Other Notes

1. Values represent a 7-point scale (1= strong agreement through 7= strong disagreement with the statement).
2. A summary of the questions asked appears in Figure 1.
3. If significant differences using one-way analysis of variance ($p < .05$) in the response patterns between at least two groups were noted, Scheffe's multiple comparison test was used to determine which groups had statistically significant weaknesses.
4. The responses to questions 6, 8, and 9 indicated significant differences, with the results appearing in Table 2.

rather than on emerging technological developments. CFOs may have found that many emerging technologies soon may become commercially feasible.

While all groups responded that SOP 96-1 would increase corporate disclosures involving environmental issues (Question No. 9), CFOs (1.98) echoed this sentiment more significantly than the other three groups (CPA: 3.15; MA: 2.45; and FA: 2.71).

Discussion

While some noteworthy comments arose, the respondents were nearly unanimous in their evaluations of the questions. Among other results, they believed that SOP 96-1 should have provided more specific guidance on the appropriate discount rate; will cause appropriate, increased corporate disclosures; will help to lower litigation regarding environmental issues; and that

the recognized losses normally should be classified as an ordinary business expense.

Financial Analysts (1.34) and management accountants (1.38) more strongly agreed that PRPs should be held accountable for both their and others' potential shares of their sites' minimum remediation liabilities than did CPAs (1.75) and chief financial officers (CFOs), (1.92)—perhaps because of the increased risk

TABLE 2
SCHEFFE'S TEST RESULTS
(Pairwise Comparisons)

| QUESTION NUMBER | GROUPS | GROUP MEANS | GROUP DIFFERENCES |
|-----------------|--------|-------------|---|
| Q6 | 3 | 3.15* | 2 > 3, 1 and 4 |
| | 1 | 2.89 | |
| | 4 | 2.45 | |
| | 2 | 1.77* | |
| Q8 | 4 | 2.20 | NO SIGNIFICANT DIFFERENCES AMONG THE GROUPS |
| | 2 | 2.14 | |
| | 1 | 1.97 | |
| | 3 | 1.84 | |
| Q9 | 1 | 3.15* | 2 > 1, 4 and 3 |
| | 4 | 2.71 | |
| | 3 | 2.45 | |
| | 2 | 1.98* | |

NOTES:

1. Abbreviations for groups presented in the above Table: (1) public accountants; (2) chief financial officers; (3) management accountants; and (4) financial analysts.
2. * Denotes pairs of groups significantly different at the 0.05 level of significance.
3. Scheffe's test was performed on questions that exhibited significant differences in means between groups in the ANOVA tests.

exposure the latter two groups may now face.

Most respondents agreed that companies should follow "normal" cost allocation procedures to allocate overhead in measuring environmental remediation liabilities (1.51 overall). Financial analysts (1.86) were less inclined to do so, probably because of the elasticity and magnitude of such costs.

The respondents generally were indifferent (4.4 overall) to the new requirement of expensing—rather than accruing—personnel costs, including fringe benefits. Although the new SOP adheres more closely to GAAP, many respondents probably view these provisions as non-material or as representing no major change from current practice. In addition, all respondent groups (2.35 overall), except for

financial analysts (2.84), agreed that PRPs should recognize the maximum pro-rata share of potential liabilities of other "financially weak" or "unco-operative" PRPs. Perhaps those disagreeing with this position would have wanted the disclosures to appear in a footnote—like a loan contingency.

All respondent groups strongly agreed (1.51 overall) that

FIGURE 1

SUMMARY OF QUESTIONNAIRE USED IN SURVEY

Please indicate the extent to which you agree or disagree with the following statements.

Strongly Agree Neither Strongly Agree nor Disagree Strongly Disagree

<1—————2—————3—————4—————5—————6—————7>

1. All potentially responsible parties (PRPs) should be accountable for both their sites and potentially others' shares of their sites' minimum remediation liabilities.
2. Allocating overhead to measure a loss should follow "normal" cost accounting standards allocation procedures.
3. PRPs' personnel costs (including fringe benefits) for those directly involved in cleaning up a site should be expensed rather than accrued.
4. PRPs should recognize the maximum pro-rata share of potential liabilities of other "financially weak" or "uncooperative" PRPs.
5. PRPs should recognize major, newly uncovered environmental losses as ordinary—rather than extraordinary—losses.
6. Environmental remediation liabilities should be measured solely on existing laws and adapted regulations policies rather than on potential technological improvements.
7. PRPs should recognize potential recoveries from insurers and other third parties as offsets to liabilities rather than as income.
8. SOP 96-1 will provide more specific guidance to measure appropriate discount rates relating to environmental remediation liabilities.
9. SOP 96-1 will cause "appropriate" increases in corporate disclosures of environmental issues.
10. SOP 96-1 will cause "appropriate" decreases in litigation regarding environmental issues.

companies should recognize newly uncovered liabilities as ordinary—rather than extraordinary—losses. This reasoning stems, most probably, from their considering such items as not both usual and infrequent, per the provisions of APB Opinion No. 30 (1973), *Reporting the Results of Operations*, and SFAS No. 5 (1975). However, some significant differences arose among respondent groups on whether existing laws should form the sole measure of environ-

mental remediation liabilities rather than considering potential technological improvements (2.57 overall). CFOs (1.77) agreed most strongly with this viewpoint and management accountants most strongly disagreed (3.15). Perhaps the CFOs want to recognize the higher costs now to help justify any necessary, future cost appropriations, while management accountants may face more immediate pressure to currently reduce costs and to increase

earnings per share. All respondent groups (2.04 overall) also believed that SOP 96-1 (1996) will provide more specific (i.e., more reliable) guidance to measure discount rates relating to environmental remediation liabilities.

Significant differences arose, however, in how the groups of respondents viewed whether SOP 96-1 will increase disclosures of environmental issues. CFOs (1.98) believed most strongly

that the SOP will help increase such disclosures, while CPAs (3.15) had a more moderate conclusion. Perhaps CPAs wanted more specific guidance for making such disclosures, while the provisions of the SOP could have overwhelmed the CFOs. Moreover, CPAs viewing the new SOP merely as an extension of SFAS No. 5 may feel more comfortable implementing its provisions than did the CFOs.

All respondent groups generally disagreed that the new SOP would cause "appropriate" decreases in litigation regarding environmental issues (3.95 overall), recognizing that its provisions are not a cure-all for this major contingency. Changing environmental laws, new products, previous unknowing violations of environmental laws—plus our litigious society—all may cause more litigation.

Implications of the SOP and of the Study

SOP 96-1 (1996) requires many firms to reassess their remediation liabilities and recognize those liabilities at earlier stages than they did previously. It does not represent a significant additional accounting and reporting requirement for most companies that adhered previously to the provisions of SAB No. 92 (1993), but other firms will soon need to adhere to these new disclosure and liability recognition provisions, especially those with "soft" low-end ranges. Given the increased scrutiny that financial statement users will place on these entities' environmental disclosures, companies and their accountants should

adhere carefully to the dictates of the new SOP.

Finally, the survey results show that four of the groups that are most affected by the new SOP generally favor its provisions—but still favor more specific guidance to reduce unnecessary litigation and reporting requirements for environmental matters.

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