ASBJ Statement No. 18

Accounting Standards for Asset Retirement Obligations

and

ASBJ Guidance No. 21

Guidance on Accounting Standards for Asset Retirement Obligations

March 31, 2008
Accounting Standards Board of Japan

Remarks on the release

In Japan, the accounting treatment that recognizes an asset retirement obligation as a liability and includes the asset retirement cost corresponding to it in the cost of a tangible fixed asset, as required in the global accounting standards, has not been adopted. The Accounting Standards Board of Japan (hereinafter "ASBJ") has been studying accounting standards for asset retirement obligations and asset retirement expenses, taking into consideration the argument that it is useful as investment information to reflect future expenditures required for removal of tangible fixed assets in financial statements.

On March 25, 2008, at the 149th ASBJ meeting, the ASBJ approved ASBJ Statement No. 18 (hereinafter the "Accounting Standards") and ASBJ Guidance No. 21 (hereinafter the "Guidance") for public release.

Prior to the publication of the Accounting Standards and the Guidance, the ASBJ published exposure drafts of the Accounting Standards and of the Guidance, on December 27, 2007, to solicit public comments on the drafts, then reviewed the comments received and revised parts of the drafts.

Outline of the Accounting Standards and the Guidance

Definition of asset retirement obligation An asset retirement obligation is a statutory or similar obligation with regard to the removal of tangible fixed assets and is incurred when tangible fixed assets are acquired, constructed, developed or used in an ordinary way. In addition to the obligation of removal of tangible fixed assets, this statutory obligation or similar obligation requires the removal of hazardous substances, etc., contained in tangible fixed assets, using a method stipulated by law, etc., upon the removal of the tangible fixed assets, even though there may not be any obligation concerning the removal of the tangible fixed assets themselves.
Retirement of a tangible fixed asset means cessation of use of the tangible fixed asset (excluding temporary cessation).

Recognition of asset retirement obligation as a liability

An asset retirement obligation is recognized as a liability at the time that the tangible fixed asset is incurred by its acquisition, construction, development or ordinary use.

However, in the case that the amount of the obligation cannot be reasonably estimated at the time it is incurred, the obligation is not recognized, but shall be recognized as a liability when it becomes possible to reasonably estimate the amount of the obligation.

Calculation of asset retirement obligation

At the time that an asset retirement obligation is incurred, the undiscounted future cash flow required for removal of the relevant tangible fixed asset is estimated, and then the discounted amount (discounted value) is calculated.

Inclusion of the asset retirement cost corresponding to the asset retirement obligation in the cost of the asset and its allocation as period expenses

When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant tangible fixed asset by the same amount.
The asset retirement expense, which is accounted for as an asset, for the asset retirement obligation will be allocated over the remaining economic useful life of the relevant tangible fixed asset through depreciation.

Change in the estimate of the asset retirement obligation

In the case of substantial change in the estimated undiscounted future cash flow, the consequent adjustment is added to or reduced from the book values of the asset retirement obligation and of the relevant tangible fixed asset by the same amount. This applies to asset retirement obligations newly incurred for reasons such as revision of related laws.

Disclosure

Presentation in the balance sheet

The asset retirement obligation is included in the non-current liabilities under an appropriate title, for example, asset retirement obligation, except when the obligation is expected to be fulfilled within one year of the date of the balance sheet, in which case it is included in the current liabilities.

Presentation in the income statement

Item	Section to be included in
Amount of allocated asset retirement cost corresponding to the asset retirement obligation	Included in the same section as the depreciation expense of the relevant tangible fixed asset.
Amount of adjustment of the asset retirement obligation required over time	Included in the same section as the depreciation expense of the relevant tangible fixed asset.
Difference between the balance of the asset retirement obligation and the actual amount expended to fulfill the asset retirement obligation, recognized at the time of fulfilling the obligation	Included in the same section as the allocated asset retirement expense for the asset retirement obligation, in principle.

Effective date and transition period

The Accounting Standards and the Guidance shall apply to fiscal years beginning on or after April 1, 2010. However, the Accounting Standards, may apply to fiscal years beginning prior to April 1, 2010.

The beginning balances of the first fiscal year to which the Accounting Standards are applied will be calculated as follows, and the difference will be included in the extraordinary loss in the year, in principle.

(1) The asset retirement obligations of assets existing at the beginning of the first fiscal year to which the Accounting Standards are applied will be calculated by estimating the undiscounted future cash flow as of the beginning of the fiscal year and by using a discount rate.

(2) The amount of asset retirement expense included in the book values of assets existing at the beginning of the first fiscal year to which the Accounting Standards are applied will be the amount calculated assuming that the estimated undiscounted future cash flow and discount rate at the beginning of the fiscal year are the same as those at the time that the relevant asset retirement obligations were incurred minus the amount of depreciation afterwards.

In the case that a provision is set for the asset retirement obligations relating to assets

existing at the beginning of the first fiscal year to which the Accounting Standards are applied, the beginning balances of the asset retirement obligations and of the relevant tangible fixed assets will be calculated as described in (1) and (2) above, and the balance of the provision as of the end of the previous fiscal year will be included as part of the asset retirement obligations.
The application of the Accounting Standards and the Guidance will be treated as changes in the accounting policy due to changes in accounting standards.