PS 3280: Asset Retirement Obligations (ARO)

Last updated: June 2020

Note: PS 3280 is effective for annual periods beginning on/after April 1/22; earlier adoption is permitted.

SCOPE

- AROs associated with tangible capital assets (TCAs) controlled by a public sector entity.

Section does not cover costs due to: a plan to sell the TCA, impairment, improper use, unexpected events or remediation of contaminated sites.

DEFINITIONS

Accretion expense: the increase in the carrying amount of a liability for AROs, due to the passage of time.

Productive use: the TCA is held for use for the production/supply of goods/services, rental to others, administrative purposes, or for development, construction, maintenance or repair of other TCAs.

Promissory estoppel: the principal that a promise made without consideration may be enforced if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment.

RECOGNITION

RECOGNITION OF AROs

An ARO liability can be incurred due to the acquisition, construction or development of a TCA or through the normal use of a TCA. Obligations from the normal use of a TCA are predictable, likely to occur and unavoidable as a result of operations.

A liability should be recognized when, as at the financial reporting date:

- There is a legal obligation that established a clear duty/responsibility to incur retirement costs in relation to a TCA (i.e. agreements or contracts, government's own legislation, legislation of another government or a promise made to a 3rd party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel);
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- A reasonable estimate of the amount can be made.

A change in circumstance during the life of a TCA may give rise to a new ARO to be recognized.

RECOGNITION AND ALLOCATION OF ASSET RETIREMENT COSTS

Upon initial recognition of an ARO liability, an entity should recognize an asset retirement cost by increasing the carrying amount of the related TCA (or component part) by the same amount as the liability.

- The entity should allocate the asset retirement costs to expense in a rational and systematic manner over the useful life of the TCA (accretion expense).
- If additional use results in additional ARO liability being incurred in each year of an asset's life, a rational method could be to accrue the additional ARO liability each year, capitalize and then expense an equal amount of asset retirement cost.

AROs may exist in connection with:

- A fully amortized TCA that is still in productive use – ARO liability would increase the cost basis of the asset and be amortized over the estimated remaining useful life.
- A TCA that is not recognized – asset retirement costs would be expensed as there is no cost basis of the underlying asset to which the asset retirement costs can be attached.
- A TCA that is no longer in productive use – as there is no longer any period of future benefits associated with the asset retirement costs, these costs would be expensed.

MEASUREMENT

INITIAL MEASUREMENT

The estimate of a liability should include costs directly attributable to asset retirement activities and any TCAs acquired as part of those activities, to the extent they have no other use.

- **Asset retirement activities include:** all activities related to an ARO. e.g. decommissioning or dismantling a TCA, remediation of contamination created by normal use, post-retirement costs (operating, maintenance and monitoring a shut down facility), and costs of other TCAs acquired to perform post-retirement activities.
- **Activities do not include:** obligations created by waste/by-products produced by a TCA, routine replacement or maintenance of a TCA, and any portion of non-ARO activities by a TCA acquired for settlement of the ARO.

Measurement of an ARO liability is a result of the best estimate of the cost to retire the TCA based on information available at the financial statement date. Professional judgement is required to assess the appropriateness of the measurement technique used to determine the best estimate. When the liability is expected to settle over an extended period of time, a PV technique is the best technique to use.

SUBSEQUENT MEASUREMENT

The carrying amount of an ARO liability should be reconsidered at each financial reporting date.

The entity should recognize period-to-period changes in the liability, resulting from:

1. The passage of time as an accretion expense (expensed in the period and reported on the statement of operations).
2. Revisions to timing or amount of the original estimate of undiscounted cash flows, or changes in the discount rate.

If revised, the new carrying amount of the TCA should be amortized in a rational and systematic manner on a go-forward basis.

An ARO liability will continue to be recognized until it is settled or extinguished. Uncertainty in the measurement of an ARO liability is disclosed in accordance with PS 2130 *Measurement Uncertainty.*

RECOVERIES

Recoveries of AROs may result when the entity is able to recover costs from a third party and they meet the definition of an asset or a contingent asset (see PS 3210 *Assets* and PS 3320 *Contingent Assets*).

A recovery related to an ARO should be recognized when:

- The recovery can be appropriately measured;
- A reasonable estimate of the amount can be made; and
- It is expected that future economic benefits will be obtained.

A recovery should not be netted against the liability.

If recovery is contingent, disclose in accordance with PS 3320 *Contingent Assets*

PRESENTATION AND DISCLOSURE

An ARO liability is generally long term in nature.

A public sector entity should disclose the following:

- General description of the ARO liability and associated TCA
- Amortization method used for asset retirement costs
- Basis for the estimate of the liability
- A reconciliation of the liability: incurred, settled, accretion expense and changes in estimated cash flows for the year.
- Estimated recoveries

For a full list of disclosure requirements, refer to PS 3280.63-.66