



Emerging Issues Task Force

Issue Number: 18-01

Date Posted: March 1, 2018

Issue Short Heading: PS 3280 Asset Retirement Obligations

Issue Category:

- Membership issue
- Government (Provincial)
- Government (Federal)
- PSAB
- Other

Issue Description

In March 2017, the Public Sector Accounting Standards Board released a new exposure draft entitled *Asset Retirement Obligations, Proposed Section PS 3280*. This standard is intended to provide guidance, which does not currently exist in the Handbook, on accounting for Asset Retirement Obligations (AROs). The intent is to help ensure consistent treatment and faithful representation.

While this standard does not apply until years beginning on or after April 1, 2021, it will have a significant impact on many municipalities and thus preparations for implementation should start long before the adoption date. The approach to implement this standard will be very similar to the approach taken with the Liability for Contaminated Sites standard PS 3260 but the scope is significantly broader.

Be Proactive for PS 3280!

PS 3280 is on the horizon and you should take this time to be proactive. Below is more detail regarding this standard. Some initial first steps could include:

- Review your future capital plan and try to identify applicable “new” assets, to understand financial impact and ensure appropriate budgeting that includes the potential liability.

- Review existing assets as they could be impacted as well

Standard Highlights

Scope

The proposed standards scope will include:

- All tangible capital assets owned or leased by the municipality regardless of whether they are in-use or not in-use.
- Solid waste landfills currently accounted for under PS 3270, and
- Asbestos

Out of scope items will include:

- Contaminated sites PS 3260, and
- Constructive and equitable obligations

Recognition

An ARO exists when all of the following 4 criteria are met:

- There is a legal obligation
- There is a past transaction that has occurred
- It is expected that future economic benefits will be sacrificed
- A reasonable estimate can be made

Application

The proposed application changes whether the underlying asset is in productive use or not. If the asset is in productive use, the ARO will be capitalized and amortized in a systematic way over the life of the asset. If the asset is not in productive use the ARO will be expensed in the period.

Implementation

While the implementation of this standard is not required until April 1, 2021 there is a significant amount of work required to implement it. Start early!

Effect on Government

The implementation steps required for this standard will be very similar to what was just experienced with the implementation of Liability for Contaminated Sites PS 3260. The major difference will be that the increased scope, and effort required for AROs could potentially have a significant impact on a municipality's financial statements.

As you will recall, the standard on contaminated sites was scoped to only include contamination on a property that was not in productive use or that resulted from an unexpected event that exceeds an environmental standard. This significantly reduced the scope of the work that was required to be performed.

The ARO standard does not have these restrictions. An ARO could exist whether the asset is in use or not in use and whether contamination exists or does not exist. An ARO could result from an agreement that requires the dismantling of a building at a future date.

The key is to identify any future legal obligation associated with any of your municipality's existing assets. The steps to complete this are:

- Identify a complete list of assets owned or leased by your municipality,
- Review agreements, contracts, legislation, etc. associated with those assets for potential AROs
- Estimate the cost of complying with the ARO

It is also important to note that the proposed ARO standard will replace the existing Landfill Liability standard PS 3270

Quick Information

What is an asset retirement obligation (ARO)?

It is a legal obligation associated with the retirement of a tangible capital asset. An example could include an engineered snow dump site. When this tangible capital asset is decommissioned there will be an obligation to reclaim the site, the ARO is the cost of doing so.

What is the purpose of the standard?

An asset retirement obligation is an accounting standard established to recognize the fair value of retirement obligations for tangible, long-lived assets in order to ensure consistent treatment and faithful representation.

When will this standard come into effect?

The new standard is anticipated to apply to fiscal years beginning on or after April 1, 2021. This means for municipalities, the year ended December 31, 2022 (with optional 2021 comparative information).

What does this mean for capital budgeting beyond 2021?

It is important to consider there may be the need to recognize a liability for the retirement obligation as part of the capital asset and this would need to be captured as part of the capital cost. The liability would be based on the present value of the best reasonable estimate of the amount to retire the asset and would be capitalized.

Note: Direct inquiries, commentaries and questions to the GFOA Discussion Forum by clicking on this link: <https://www.gfoa.ab.ca/forum/discussion/334/ps-3280-asset-retirement-obligations> . You will be taken directly to this conversation.