gfoaalberta **Emerging Issues Task Force**

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Issue Short Heading: PS 3280 Asset Retirement Obligations

Issue Category:
_ Membership issue
_ Government (Provincial)
_ Government (Federal)
X PSAB
_ Other

Issue Description
In August 2018, the Public Sector Accounting Board issued the new PS 3280 *Asset Retirement Obligations* accounting standard requiring public sector entities to recognize a liability for legally-enforceable asset retirement obligation. While this standard will have a significant impact on all levels of government, municipalities may be amongst the most effected due to their wide scope of operations. Getting a start on implementation now is critical for a successful implementation.

The standard is effective for fiscal years beginning on or after April 1, 2021. For local governments with a calendar year-end, fiscal 2022 will be the first year that the standard applies unless they choose early adoption.

How it works
On adoption, municipalities will recognize a liability for asset retirement obligation (ARO) and increase the carrying amount of the related tangible capital asset (TCA). The asset retirement cost is allocated and amortized to expense in a rational and systematic manner over the useful life of the related TCA, and the ARO liability will be increased over time due to accretion expense.

How does this affect your municipality?
We have hosted several asset retirement share sessions across the country, and similar themes and challenges seem to arise at municipalities of all sizes:

- The level of effort for implementation surprises many municipal financial officers. While it is not expected that PS3280 implementation will require the same level of effort as tangible capital asset accounting, it will be significantly more effort than PS3260 *Contaminated Sites* due to the larger number of assets to be considered.

- The scoping of assets may be the most difficult part of section implementation. From a financial statement audit perspective, the most significant risk with respect to PS3280 is the completeness of the liability recorded. Simply put, have you recorded all retirement obligations that your municipality has a legal obligation to settle? This means that a comprehensive evaluation of all possible assets and sites needs to be performed, considering both active and in-active assets. To allow time to work on the complex measurement issues, municipalities should aim to have completed the scoping of assets by the end of this calendar year – December 31, 2019.
- Municipalities should be prepared to demonstrate to their auditors the completeness of asset and site listings used to identify in-scope retirement obligations. This means that asset and site listings should start with available sources, such as the TCA register, long-term capital plan, and site listings for PS3260.
- Only legally-enforceable obligations are in scope. This means that constructive or equitable obligations are out of scope of the standard. But entities will need to be careful as PS 3200 *Liabilities* will apply in analyzing an obligation to retire a TCA that is not legally enforceable.
- The availability of information will be a major challenge to the assessment of potential retirement obligations, and obligation measurement. Many municipalities do not have ready data to inform a reliable measurement of their retirement obligations. As a case in point, the standard specifically discusses asbestos removal as an in-scope retirement obligation. This means that buildings built before the early 1990s will likely have an ARO. While municipalities may have some information on the existence of asbestos through health and safety records, or environmental engineering reports, they are not likely to have a complete estimate of what it would cost to remove asbestos. Finding sufficient data points, such as prior experience, expert reports, and quotes on other removals, will be critical for measurement of the liability.
- A wide variety of assets require consideration through the scoping exercise. In addition to buildings with asbestos, our share forums have also raised potential retirement obligations with respect to fuel storage tanks, medical equipment, certain linear assets (roads), wastewater facilities and sewage treatment plants, amongst others. There are also additional retirement obligations that may arise through contractual commitments of the municipality. Finance will not have the understanding of the assets to properly perform this assessment. Public works, engineering, and legal all need to be involved.
- The overlap in scope between PS3260, *Contaminated Sites* and PS3280 *Asset Retirement Obligations* will add complexities to the implementation efforts. One example to illustrate this overlap is a sewage treatment facility. Under PS3260, a municipality may already be recording a liability related to contamination arising from the spillage of sewage, or chemicals used in the treatment process. The municipality is not, however, currently required to record an obligation to retire

that treatment facility at the end of its useful life. If the municipality determines that it is required under environmental regulations, or contract to dismantle and remove that facility at the end of its useful life, it would have an additional retirement obligation to recognize under PS3280.

- Existing landfill liabilities will need to be assessed upon implementation of PS3280. The previous section PS3270, *Solid waste landfill closure and post-closure liability* was withdrawn with the introduction of PS3280, as landfills are now considered in scope for that section. The biggest impact of this change is the timing of liability recognition. Municipalities will no longer recognize a liability as landfill capacity is used up (as under PS3270), and instead recognize the full retirement obligation (and related asset) on day one of the landfill site's useful economic life. Over the site's life the charge to the Statement of Operations is the same under PS3280 and old PS3270. However, the timing of when that charge is incurred is slightly different. Under PS3280, expenses related to the amortization of the asset and the accretion of the liability is elevated in the early years of the landfill site's life, compared to what is recognized under old PS3270. Active landfill sites will be the most impacted – particularly those in the early half of their useful life. Municipalities will need to de-recognize existing landfill liabilities under PS3270 upon transition to the new standard and record a new obligation under the measurement standards in PS3280.

Conclusion
Effective project management will be essential to success. Learning from the adoption of the *Contaminated Sites* and *Tangible Capital Assets* standards, municipalities should appoint a project champion to lead the oversight, accountability, and project planning. Building early collaboration of finance and engineering is also essential. Municipalities should also actively engage their auditors throughout regular touch points to verify a common understanding of key assumptions and decisions.

The best plan of attack is an early start. Completing your asset scoping now is essential to implementation success. Hoping to see you at one of our upcoming share forums!

This article was prepared by Bailey Church, Partner – Accounting Advisory Services with KPMG for the Emerging Issues Task Force.

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.