

# Asset Retirement Obligations (ARO)

## Fact Sheet for Municipal Financial Officers

In August 2018, the Public Sector Accounting Board released a new public sector accounting standard, PS 3280, Asset Retirement Obligations (ARO). This section takes effect for fiscal years beginning on or after April 1, 2022, which means that reporting year ending December 31, 2023, will be the first year impacted. The application of Section PS 3280 will relate to all public sector entities following Public Sector Accounting Standards. This document applies to municipalities and regional service commissions and provides a brief overview of activities relating to asset retirement obligations.

### What is an Asset Retirement Obligation?

An ARO is a legal obligation associated with the retirement of a tangible capital asset<sup>1</sup>. Primary examples of an ARO include removal of asbestos, removal of storage tank, wastewater or sewage treatment facilities, and closure/post closure liabilities relating to landfill sites.

### Costs within scope

Tangible capital assets that could be impacted include those that are controlled by the municipality or regional services commission. The standard applies to all assets, including leased assets, whether they are in productive use or not, as well as fully amortized and unrecognized tangible capital assets.

### Costs outside of scope

Costs that would be considered to be outside the scope of the standard include routine replacement or maintenance, improper use of a tangible capital asset, remediation of contaminated sites related to unexpected events, waste and by-products produced by tangible capital assets, and preparing a tangible capital asset for an alternative use.

### Criteria

The following are the ARO liability recognition criteria from PS 3280 (at the financial reporting date):

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset.
- The past transaction or event giving rise to the liability has occurred.
- It is expected that future economic benefits will be given up.
- A reasonable estimate of the amount can be made.

Recoveries should be recognized when:

- The recovery can be appropriately measured.
- A reasonable estimate of the amount can be made.
- It is expected that future economic benefits will be obtained.
- A recovery should not be netted against the liability<sup>1</sup>.

### Measurement

Measurement of an ARO liability should be the best estimate of the amount required to retire a tangible capital asset at the financial statement date. The liability estimate encompasses costs directly attributable to asset retirement activities including:

- post-retirement option, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset;
- costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use; and
- the liability should be estimated based on available information at the financial statement date.

#### Subsequent measurement

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

In periods subsequent to initial measurement, a public sector entity may recognize period to period changes in a liability resulting from:

- revision to either the timing, the amount of the original estimate of undiscounted cash flows, or the discount rate, as part of the cost of the related tangible capital asset;
- the passage of time as an accretion expense;

- the revised carrying amount of the related tangible capital (or a component thereof) should be amortized in a rational and systematic manner on a go forward basis<sup>1</sup>;
- once the tangible capital asset (or component thereof) is no longer in productive use, all subsequent changes in the estimate of the ARO liability should be recognized as an expense in the period they are incurred;
- a liability for an ARO continues to be recognized until it is settled or otherwise extinguished; and
- period to period changes in the liability are accounted for differently depending on how they came about and the state of the asset being retired.

Measurement uncertainty

In certain cases, there may be an indeterminate settlement date for the ARO. For example, a public sector entity may be uncertain when the cash flows associated with an ARO will occur. Uncertainty about the timing and amount of settlement of the ARO does not remove that obligation but will affect the measurement of the liability<sup>1</sup>.

## Implementation

PS 3280 will primarily be applied under the modified retroactive approach with restatement of prior year comparatives. The information presented for comparative purposes should be restated unless the necessary financial data are not reasonably determinable. There may be some situations where the implementation may require a prospective approach.

Entities may have previously recognized liabilities under PS 3260 - Liability for Contaminated Sites or PS 3270 - Solid Waste Landfill Closure and Post - Closure Liability (standard withdrawn when PS 3280 comes into effect). Those liabilities should be assessed under PS 3280 to determine if they are:

- Asset retirement obligations.
- In addition to contamination liabilities under PS 3260.

## Retirement activities

May include, but are not limited to:

- decommissioning or dismantling a tangible capital asset that were acquired, constructed or developed;
- remediation (clean up) of contamination of a tangible capital asset created by its normal use;
- post-retirement activities such as monitoring; or
- constructing other tangible capital assets to perform post-retirement activities.

## Impact on landfill liabilities

Accounting for landfills under Section PS 3280 compared to previous Section PS 3270:

	<b>Section PS 3280 – AROs</b>	<b>Section PS 3270 - Landfills</b>
Liability	Recognized when obligation incurred = earlier recognition	Recognized incrementally as landfill used = later recognition
Total Liability Overall	Generally the same	
Assets	Asset retirement costs capitalized	N/A
Net Debt	Earlier increase in net debt	Later increase in net debt
Total Expenses	Generally the same	
Annual Expenses	Difference in annual expenses are due to differences in methodology used	

Table from reference #2

## Other resources

- 1) CPA Section PS 3280 Asset Retirement Obligations
- 2) BDO Canada LLP Article, Assurance and Accounting Asset Retirement Obligation (ARO): A Practical Approach to Section 3280 (published July 2020)  
[https://www.bdo.ca/BDO/media/FRS/PSAS/PSAS\\_Update\\_11Sep20.pdf](https://www.bdo.ca/BDO/media/FRS/PSAS/PSAS_Update_11Sep20.pdf)
- 3) BDO Canada LLP Article, PSAB at a Glance (published July 2020)  
[https://www.bdo.ca/BDO/media/FRS/PSAS/PSAB-at-a-Glance-Section-PS-3280\\_1.pdf](https://www.bdo.ca/BDO/media/FRS/PSAS/PSAB-at-a-Glance-Section-PS-3280_1.pdf)
- 4) Financial Advisory at Municipal Affairs contact information: 780-427-2225, toll-free in Alberta by dialing 310-0000 first and email at [ma.advisory@gov.ab.ca](mailto:ma.advisory@gov.ab.ca)