PSAB At a Glance

Section PS 3280 - Asset Retirement Obligations

July 2020

Section PS 3280 – *Asset Retirement Obligations*

Effective Date
Fiscal years beginning on or after April 1, 2022

Scope

Applies to:

- Legal obligations, including obligations created by promissory estoppel, associated with the retirement of a tangible capital asset resulting from its acquisition, construction, development, or normal use.
- Asset retirement obligations can be associated with tangible capital assets, controlled by a public sector entity that are in productive use and those no longer in productive use.

Does not apply to costs:

- To acquire, construct or develop the related tangible capital asset, its replacement and maintenance. Nor to the impairment of tangible capital assets (see Section PS 3150, *Tangible Capital Assets*);
- Related to remediation of contaminated sites, which are covered in Section PS 3260, *Liability for Contaminated Sites*;
- Related to the improper use of a tangible capital asset;
- Related to activities necessary to prepare a tangible capital asset for an alternative use;
- Resulting from an unexpected event such as unexpected contamination;
- Related to obligations created by waste or by-products produced by a tangible capital asset such as sewage waste; and
- That arise solely from a plan to sell or otherwise dispose of a tangible capital asset.

Asset retirement obligation

A legal obligation associated with the retirement of a tangible capital asset.

Recognition

- A liability for an asset retirement obligation must be recognized when, as at the financial reporting date, all of the following criteria are met:
  - 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; and
  - A reasonable estimate of the amount can be made.

Legal obligation

- A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. A legal obligation can result from:
  - Agreements or contracts;
  - Legislation of another government;
  - A governments own legislation; or
  - A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel.

Past transaction or event

- A liability for an asset retirement obligation can be incurred due to:
  - The acquisition, construction or development of a tangible capital asset;
  - Normal use of a tangible capital asset.
- It is the acquisition, construction, development or use of the tangible capital asset, not the existence of the contract, agreement, legislation or other legally enforceable right, that is the obligating event.
- An entity is not relieved from recognizing an asset retirement obligation if it is able to postpone incurring the retirement costs. The obligation event occurs when the asset is acquired.
- If an asset that was not previously required to be retired must now be retired due to new legislation, an asset retirement obligation would be created. This obligation would not be reported as a prior period adjustment, since new legislation is a current period event.

Recognition and allocation of asset retirement costs

- Upon initial recognition of a liability for an asset retirement obligation, a public sector entity must recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) by the same amount as the liability.
- The asset retirement cost must be expensed in a rational and systematic manner over the useful life of the tangible capital asset (or a component thereof).

Recognition and allocation of asset retirement costs (continued)

Obligations associated with fully amortized tangible capital assets

- An asset retirement obligation may exist for a fully amortized tangible capital asset that is still in productive use. Even though the asset is fully amortized, its cost basis exists and the liability for an asset retirement obligation related to the initial acquisition, construction or development of the asset would increase its cost base.
- The costs would be amortized to expense over the revised estimate of the remaining useful life.

Obligations associated with unrecognized tangible capital assets

When an asset retirement obligation arises in connection with a tangible capital asset that is not recognized in an entity's financial statements, the asset retirement cost is expensed, since there is no cost basis of the underlying asset to which the asset retirement cost can be attached.

Obligations associated with tangible capital assets no longer in productive use

If an asset retirement obligation arises for a tangible capital asset that is no longer in productive use, the asset retirement costs would be expensed, since there is no longer any period of future benefit associated with the costs.

Measurement

Initial measurement

- Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or component thereof) at the financial statement date.
- The estimate of the liability should include costs directly attributable to asset retirement activities. Such costs would include:
  - Post-retirement operation, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset; and
  - Costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use.
- The liability would be estimated based on information that is available at the financial statement date.

Subsequent measurement

- The carrying amount of a liability for an asset retirement obligation is reconsidered at each financial reporting date.
- In periods subsequent to initial measurement, a public sector entity must recognize period to period changes in a liability:
  - Resulting from revisions 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; and
  - Resulting from the passage of time as an accretion expense.
- The revised carrying amount of the related tangible capital (or component thereof) should be amortized in a rational and systematic manner on a go-forward basis.
- Once the tangible capital asset (or component thereof) is no longer in productive use, all subsequent changes in the estimate of the liability for asset retirement obligations should be recognized as an expense in the period they are incurred.
- A liability for an asset retirement obligation continues to be recognized until it is settled or otherwise extinguished.

Measurement uncertainty

- In some cases, the settlement date for an asset retirement obligation may not be known. Uncertainty about the timing and amount of settlement does not remove the obligation, but affects its measurement.

Recoveries

- A recovery related to an asset retirement obligation must 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 cannot be netted against the liability.
- A contingent recovery would be disclosed in accordance with Section PS 3320, *Contingent Assets*.

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