



**Public Sector Accounting  
Standards update**  
Keeping current

Asset Retirement Obligations

Audit & Assurance ●

# Important caveats

- This webcast does not provide official Deloitte interpretive accounting guidance.
- Check with your advisor before taking any action.



# Asset Retirement Obligation (AROs)

## Project status



### Statement of principles

- The Public Sector Accounting Board (PSAB) issued a statement of principles and stakeholder comments were collected in November 2014



### Exposure draft

- Exposure draft issued March 2017
- PS 3270 Solid Waste Closure and Post Closure Liability to be withdrawn
- Stakeholder comments were due on June 15, 2017



### Next steps

- Final Standard expected to be approved by March 2018



### Expected adoption date

- April 1, 2021, with earlier adoption permitted
- Choice of full retroactive, modified retroactive or prospective methods

# What is an asset retirement obligation?

An asset retirement obligation (ARO) is a **legal obligation** associated with the retirement of a tangible capital asset.

## Examples of asset retirement obligations

Estimated liabilities associated with:

- Decommissioning of a nuclear power plant
- Removal of asbestos from a building
- Construction of other TCAs in order to perform post-retirement activities

## Items that would not be asset retirement obligations

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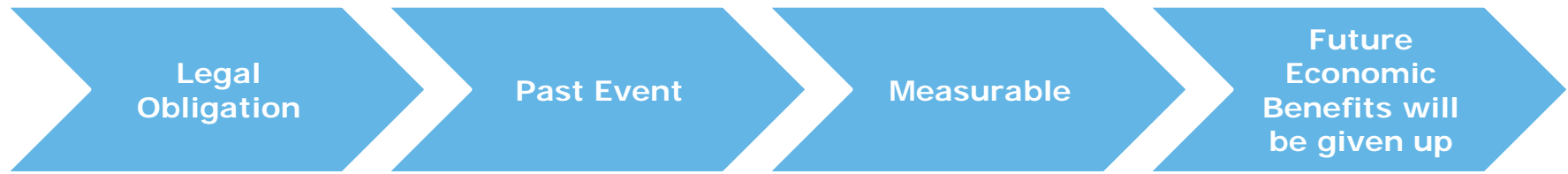
- An unexpected contamination or spill
- Waste or by-products created by tangible capital assets

**AROs differ from the Contaminated Sites in the following identifying characteristics:**

	PS 3280 ARO's	PS 3260 Contaminated Sites
Trigger of Obligation	<ul style="list-style-type: none"><li>• Legal requirement to retire asset identified</li><li>• Not necessarily related to contamination</li></ul>	<ul style="list-style-type: none"><li>• Unexpected event</li><li>• Contamination required</li></ul>
Type of obligation to recognized	<ul style="list-style-type: none"><li>• Legal obligations</li></ul>	<ul style="list-style-type: none"><li>• All liabilities (directly responsible and assumed)</li></ul>

# Asset retirement obligations – General concepts

## Recognition and measurement



### Situations requiring additional considerations

- ARO's associated with TCA's that are unrecognized must be expensed
- ARO's for assets no longer in productive use must be expensed on recognition
- ARO's for TCA's that are fully amortized would be recognized over the remaining useful life of the asset.

### Measurement

- **Management's best estimate** of the amount required to retire a tangible capital asset
- Would include costs directly attributable to the asset retirement activities, including but not limited to:
  - Payroll and benefits
  - Equipment/facilities – including assets acquired with the sole purpose of retiring TCA
  - Legal and other professional fees
  - Post-retirement maintenance and monitoring (integral to retirement)

# How do you measure an ARO?

## Subsequent measurement

### Tangible capital asset

- ARO for TCA is amortized in a rational and systematic manner
- Review of obligation may change the estimate of the asset

### Obligation

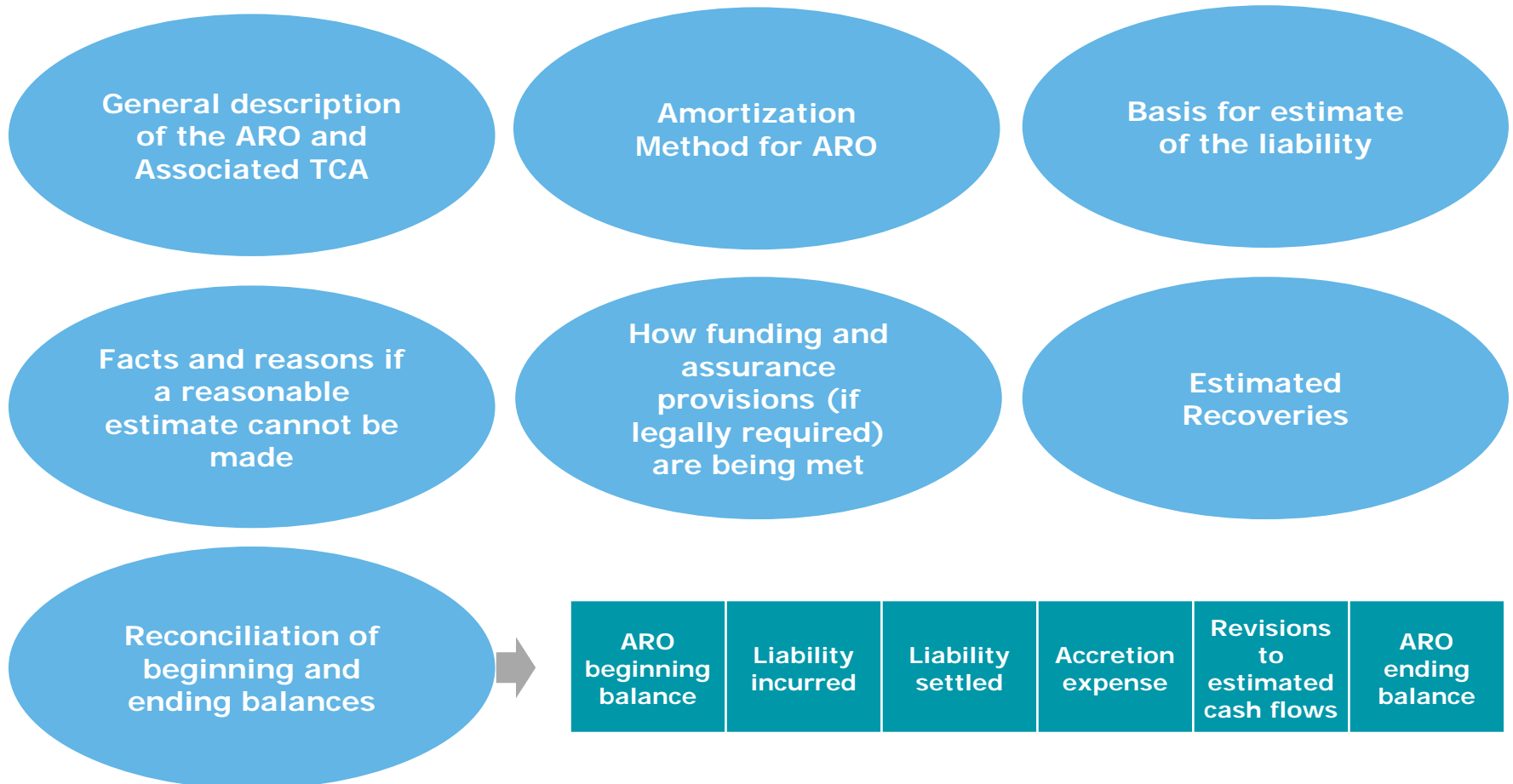
- Best estimate of the amount required to settle the obligation
- Review timing, amount of cash flow, and discount rate
- Passage of time accretion expense

### Cash flow

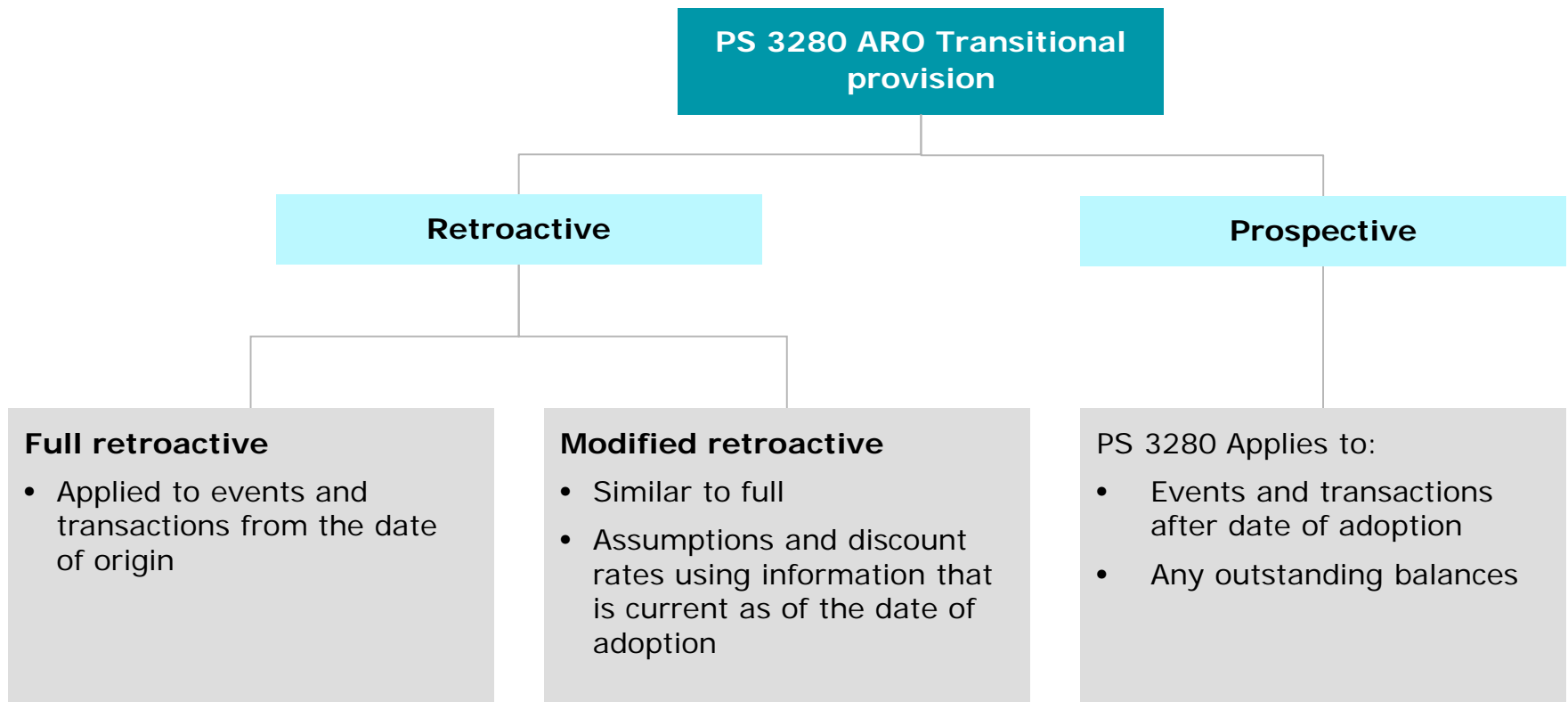
- Cash flow to settle the obligation would typically occur at the end of the useful life of the asset
- Cash flow would draw down obligation that was previously set up

# Disclosure requirements

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# Transition options





# Implementation considerations

**Smooth and accurate implementation of this standard will require strong interaction and communication between Finance and other parts of your organization. Some considerations are:**



Have you performed a “lessons learned” debrief from the adoption of PS 3260 Contaminated Sites?



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