



# Preparing for Asset Retirement Obligations

Are you ready to implement PSAB Standard PS3280 Asset Retirement Obligations?

In August 2018, PSAB issued the new standard PS3280 on asset retirement obligations. This section addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities.

**Whether you are a university, health institution or government entity (federal, provincial, municipal or Indigenous) this accounting standard will have implications for your organization if you report under the Public Sector Accounting Standards.**

## Key matters public sector entities need to consider

- The scope of retirement obligations included in the standard.
- The criteria for recognition of a retirement obligation.
- When it's appropriate (and how) to measure a retirement obligation.
- Developing a comprehensive plan to assess all in-scope assets.
- Addressing Board and Stakeholder information needs through implementation.
- Developing a consistent level of documentation to support the auditability of PS3280 implementation.

## An overview

- PS3280 will apply to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
- Asset retirement activities are defined to include all activities related to an asset retirement obligation. These may include but are not limited to:
  - decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed;
  - decontamination created by the normal use of the tangible capital asset;
  - post-retirement activities such as monitoring;
  - constructing other tangible capital assets in order to perform postretirement activities.
- In addition to asset retirement obligations associated with tangible capital assets that are in productive use and those that are no longer in productive use, PS3280 includes in scope legal obligations, and solid waste landfill closure and post-closure liabilities.

- With the introduction of PS3280 PSAB has withdrawn existing Section PS3270, solid waste landfill closure and post-closure liability.
  - Under PS3280, obligations for the closure and post closure care of solid waste landfill sites are recognized earlier than presently under PS3270, as the accounting treatment changes from incremental recognition of liability based on usage to recognition on acquisition, construction, development or normal use. This will result in an earlier increase in net debt. The recognized cost of assets would increase because asset retirement costs associated with tangible capital assets in productive use would be added to its carrying amount rather than expensed (as currently done under PS3270).
- While PS3280 includes in scope expected contamination related to a tangible capital asset controlled by the public sector entity, PS3260 contaminated sites addresses unexpected contamination related to the tangible capital asset.
- Some examples of asset retirement obligations which fall under scope of proposed PS3280 include:
  - buildings with asbestos;
  - end of lease provisions (from a lessee perspective);
  - fuel storage tank removal;
  - removal of radiologically contaminated medical equipment;
  - wastewater or sewage treatment facilities;
  - Firewater holding tanks;
  - Septic beds;
  - closure and post-closure obligations associated with landfills.
- Under PS3280, an asset retirement obligation should 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;
  - a reasonable estimate of the amount can be made.
- Public sector entities will be required to capitalize asset retirement obligations associated with fully amortized tangible capital assets, except in the following instances:
  - asset retirement obligations associated with unrecognized tangible capital assets should be expensed;
  - asset retirement obligations associated with tangible capital assets no longer in productive use should be expensed.
- The estimate of a liability should include costs directly attributable to asset retirement activities.

### Getting a start on PS3280

- Public sector entities should start considering which asset retirement obligations may fall under scope of the proposed PS3280.
  - review active and inactive tangible capital assets to identify those with retirement obligations. Consider solid waste landfills and contaminated sites which may meet the PS3280 recognition criteria.
  - reconcile this inventory with the complete tangible capital assets listing and the site inventory for contaminated sites.
  - engage functions outside of finance (particularly public works and engineering).
- Consider implications of transitional options.
- Identify opportunities to collaborate with peer entities on assets identified as in scope for PS3280, and benchmarks for measurement of retirement obligations.

## Contact us



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# Questionnaire

## Readiness to Implement Asset Retirement Obligations

**Instructions:** The following questions are intended to provide an indication of your entity's readiness to implement the upcoming new standard PS 3280 Asset Retirement Obligations from the Public Sector Accounting Board. These questions are not a complete indicator of factors influencing the successful adoption of this section, nor are they intended to provide any type of assurance. The questions are to be answered from the perspective of Finance or Financial Reporting team, with the intent of informing initial implementation activities.

### Asset Retirement Obligations

1. Has a project plan been developed for the implementation of this section?
2. Has Finance communicated with key stakeholders, including Council or Board on the impact of this section?
3. Does Finance communicate with representatives of the Public Works, Asset Management, Facilities Management or Legal functions through the financial reporting process?
4. Has a complete inventory been developed of all inactive or active assets or sites, to provide a baseline for scoping of potential retirement obligations?
5. If a complete inventory has been developed, does it reconcile back to information currently reported in the Municipality's financial statements for tangible capital assets or contaminated sites?
6. Does your entity have data on non-recorded assets or sites (ie: assets which were originally expensed on purchase, or recorded at no book value) which could have retirement obligations?
7. Does your entity have an active solid waste landfill site?
8. If yes, does your entity have an existing estimate of the full costs to retire and monitor the landfill site?
9. Is your entity aware of any of its buildings which have asbestos?
10. If so, does your entity have information to inform a cost estimate to remove/ treat the asbestos?
11. Is your entity aware of underground fuel storage tanks or boilers which must be removed at end of life?
12. If so, does your entity have information to inform a cost estimate to remove the tanks?
13. Is your entity aware of any lease arrangements where it will be required to incur costs to return the premises to pre-existing conditions at the end of the lease?
14. Has your entity determined if it has any sewage or wastewater treatment plants which have closure plans or environmental approvals which require full or partial retirement of the plant at the end of its life?
15. Is your entity aware of any other contractual or legal obligations to retire or otherwise dismantle or remove an asset at the end of its life?

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