



# FMI Fredericton

What you need to know about the new  
Asset Retirement Obligations Standard

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# Welcome



**BAILEY CHURCH**  
National Leader,  
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Introduction

What you need to know about the new  
Asset Retirement Obligations Standard

Q&A



# Overview of PSAB's Anticipated Asset Retirement Obligations Standard

# Two Tales of One Site



# Basics of the expected standard

- **PSAB approved the final Handbook Section PS 3280, Asset Retirement Obligations, at the March session. Formal release expected for August 2018.**
- **Adoption date**
  - Applies to fiscal years beginning on or after April 1, 2021
  - Earlier adoption is permitted
  - Understand the transitional rules and choices

# Asset Retirement Activities

- *“Includes 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; and
  - constructing other tangible capital assets in order to perform postretirement activities.”*

*Source: Public Sector Accounting Board*

# Scope of standard

- **The standard defines scope to include :**
  - Only legal obligations, including obligations created by promissory estoppel
  - Retirement obligations associated with tangible capital assets controlled by a public sector entity
  - Includes solid waste landfill closure and post-closure liability (has resulted in the proposed amendment to withdraw Section PS 3270)
  - Asset retirement obligations associated with tangible capital assets that are in productive use and those that are no longer in productive use

# Scope of standard

- **The standard EXCLUDES:**
  - Routine replacement
  - Improper use
  - Unexpected event
  - Alternative use
  - Waste and by-products
  - Costs that arise solely from a plan to sell



# Common Retirement Obligations

- Buildings with asbestos
- nuclear power plant decommissioning
- storage tank removal
- removal of radiologically contaminated medical equipment (x-rays or MRI's)
- Wastewater or sewage treatment facilities
- Reclamation, closure and post-closure obligations associated with mining activities
- Closure and post-closure obligations associated with landfills
- Reforestation of land subject to a timber lease

# Potential impact of including solid waste landfill closure and post-closure liability

- Obligations would be recognized earlier as the accounting treatment changes from incremental recognition of liability based on usage to recognition on acquisition, construction, development or normal use. Results 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.

# Comparison of Scope of ARO and PS 3260

## ARO

- Asset retirement obligations not related to contamination associated with entity's Tangible Capital Asset (TCA) in productive or no longer in productive use (e.g. dismantling of a TCA).
- Expected contamination related to a TCA controlled by the entity in productive or no longer in productive use.

## PS 3260

- Expected or unexpected contamination where the entity **accepts responsibility** (underlying asset not controlled by the entity or no legal requirement to perform decontamination).
- Unexpected contamination related to a TCA controlled by the entity in productive or no longer in productive use.

*Source: Public Sector Accounting Board*

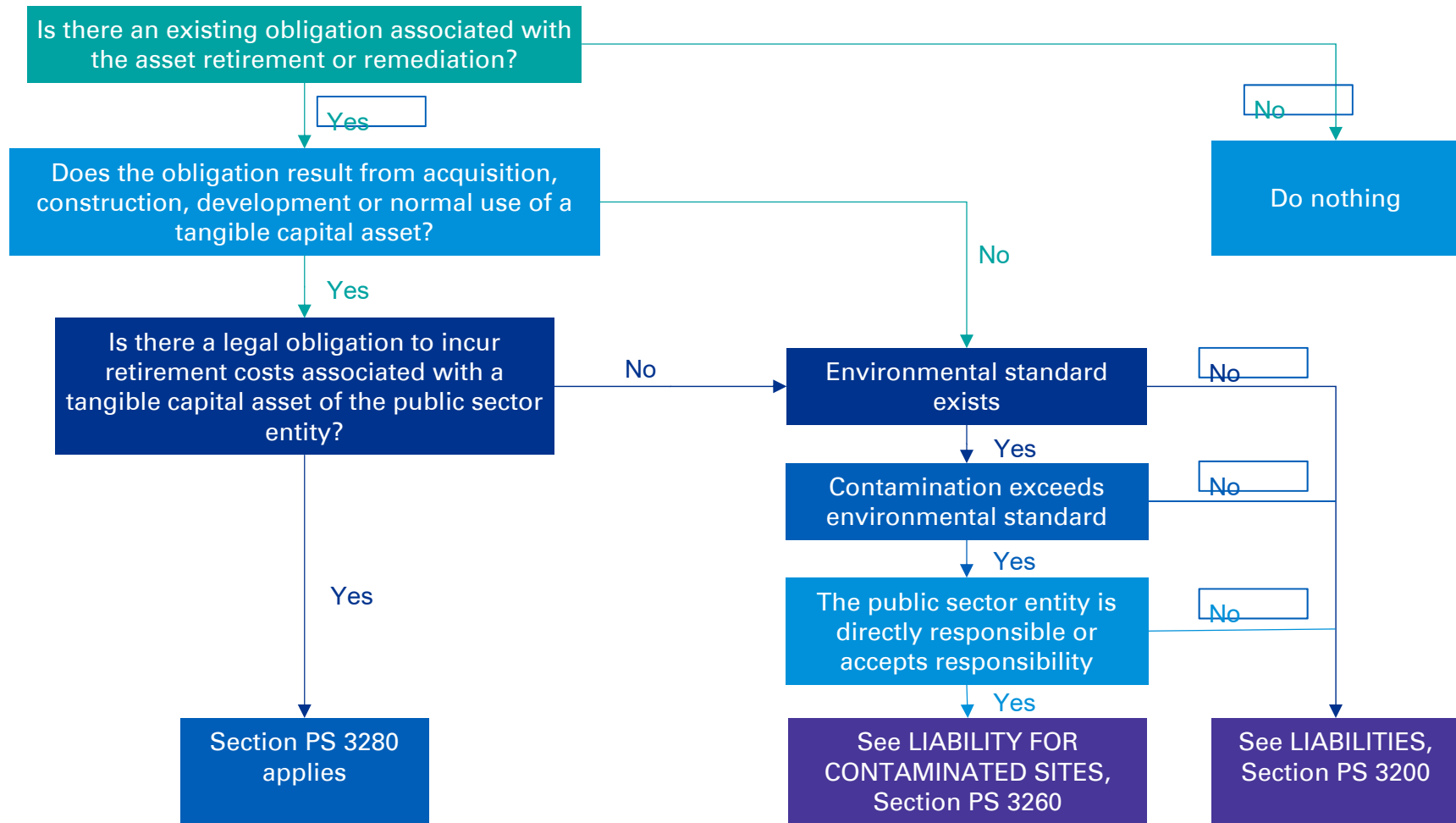
# Boundaries between ARO and PS

## 3260

	ARO	Contaminated Sites
The cause for the retirement or remediation obligation	<ul style="list-style-type: none"> <li>• Acquisition, construction, development, normal use</li> <li>• Not necessarily associated with contamination</li> </ul>	<ul style="list-style-type: none"> <li>• Unexpected event, improper use</li> <li>• Contamination needs to exist</li> </ul>
The type of obligation	<ul style="list-style-type: none"> <li>• Legal (related to TCA of the entity)</li> </ul>	<ul style="list-style-type: none"> <li>• Legal and assumed responsibility</li> </ul>
The extent of contamination	<ul style="list-style-type: none"> <li>• Contamination does not have to exceed the environmental standard</li> </ul>	<ul style="list-style-type: none"> <li>• Contamination must exceed the environmental standard</li> </ul>

Source: Public Sector Accounting Board

# Decision Tree - Scope of Applicability



Source: Public Sector Accounting Board

# Recognition/Allocation

- **A liability for an asset retirement obligation can be incurred due to:**
  - the acquisition, construction or development of a tangible capital asset; or
  - normal use of a tangible capital asset.

# Recognition/Allocation

- **A liability should be recognized when, as 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; and
  - a reasonable estimate of the amount can be made.
- **A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.**

# Recognition/Allocation

- **Recognition and allocation guidelines:**
  - Capitalize asset retirement obligation and allocate the cost in a rational and systematic manner.
  - Capitalize vs. expense:
    - Capitalize asset retirement obligations associated with fully amortized tangible capital assets.
    - Expense asset retirement obligations associated with unrecognized tangible capital assets.
    - Expense asset retirement obligations associated with tangible capital assets no longer in productive use



# Measurement

- Estimate of the liability based on requirements in existing agreements, contracts, legislation or legally enforceable obligations. For a landfill, the environmental approval establishes the activities required for site closure.
- The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset. Includes costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use.

# Measurement

- Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly attributable to the asset retirement activity.
- Costs include only those related to the nature and extent of the asset retirement obligation in accordance with the agreement, contract, legislation or a legally enforceable obligation establishing the liability

# 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. A present value technique is often the best method with which to estimate the liability
- **Recognize period to period changes in liability:**
  - due to timing, amount of original estimate, discount rate – capitalize
  - due to passage of time – expense
  - if underlying asset is retired – expense

# Transitional elements

- **Transitional guidelines:**

- Transition date for fiscal years beginning on or after April 1, 2021
- Three transitional provision options
  1. Prospective
  2. Retroactive
  3. Modified retroactive application
    - ✓ does not require the use of historical assumptions and discount rates to estimate the asset retirement obligation.
    - ✓ assumptions and discount rate based on information that is current at the beginning of the fiscal year in which this standard is first applied

# ARO vs. PS 3270

## Major differences

### ➤ **Assets**

- Recognized cost of assets will INCREASE under the proposed ARO
- Increase due to asset retirement costs being added to the carrying amount of the tangible asset rather than being expensed

### ➤ **Liabilities**

- Total liability recognized is same under both methods
- ARO method recognizes method sooner, as liability is recognized as incurred vs. incrementally based on usage
- PS 3270 requires disclosure of unrecognized liability
- Timing differences may occur

# ARO vs. PS 3270

## Major differences

### ➤ Expenses

- Total expenses recognized are the same under both methods
- Differences in amounts each year are due to methodology differences in recognizing the liability under each approach

### ➤ Transition

- Public sector entities that have applied the PS 3270 would have already recorded a portion of the asset retirement
- Therefore, these entities may have to adjust their liabilities balance to conform to principles of the ARO standard
- Impact on the transition may not be as significant if the entity has applied Section PS 3270 in the past

# Assessing Buildings with Asbestos

- Past transaction or event giving rise to the liability is the acquisition or construction of the building.
- No specific guidance on extent entities need to go to in identifying buildings with asbestos (eg: known asbestos contamination vs concealed asbestos).
- Measurement of the liability for the asset retirement obligation results is based on the best estimate at the financial reporting date of the amount required to retire the tangible capital asset. Defined to be the costs required to remove asbestos not manage it.
- Professional judgement required in determining the estimate. The estimate could be supported by experience, third-party quotes and, in some cases, reports of independent experts. The section is not expected to prescribe whether an environmental assessment need to be performed.
- Preparer auditor debate!
- Uncertainty about the timing and amount of settlement of the asset retirement obligation does not remove that obligation but will affect the measurement of the liability.

# Building of Asbestos - Scoping

- Reference applicable national, provincial, or municipal inventories of buildings containing asbestos, such as:

<https://www.tpsgc-pwgsc.gc.ca/biens-property/ami-asb/invamiante-asbestosinv-eng.html>

<http://www.cbc.ca/news/canada/saskatchewan/reporting-asbestos-in-public-buildings-now-mandatory-1.1336577>

<https://data.edmonton.ca/stories/s/Managing-Asbestos-in-City-Buildings/878r-jz kf/>

- Consider applicable site listings developed for health and safety purposes.
- Examine site listings maintained for compliance with asbestos management programs.



# The case of asbestos related obligations

- **Where is asbestos located?**
  - Pipe Wrap
  - Duct Wrap / Register Vents
  - Floor / Ceiling Tiles
  - Drywall / Plaster
  - Popcorn Ceiling /Stucco Ceiling
  - Attic Vermiculite Insulation
  - Drywall joint compounds
  - Sprayed fireproofing and insulation
  - Plaster
  - Etc.

# What of the legal obligations?

## ➤ **Federal Regulation**

- Canada Labour Code, Part II
- Canada Occupational Health and Safety Regulations
- Canadian Environmental Protection Act
- Hazardous Materials Information Review Act
- Hazardous Products Act

## ➤ **Provincial Regulation**

- Ontario's O. Reg. 278/05: Designated substance – Asbestos on construction projects and in buildings and the Occupational Health and Safety Act (OHSA)
- Newfoundland and Labrador's Asbestos Abatement Regulations and its Occupational Health and Safety Regulations under the Occupational Health and Safety Act (O.C. 98-730 and O.C. 2012-005 respectively)
- Alberta's Asbestos Abatement Manual

# Leverage management tools in place

## ➤ **People**

- Facility Managers
- Service Area Managers
- Real Property Managers
- Asset Managers, Technicians, Engineers
- Asbestos Coordinator

## ➤ **Processes**

- Regulated Periodic Inspections by Qualified Specialists

## ➤ **Data and Information**

- Asbestos Management Plans

# Use the Asbestos Management Plan

- **Depending on the provincial regulation, asbestos management plans will need to include some of the following:**
  - Location (plan) of asbestos-containing materials
  - Composition, type and percent content of asbestos in building materials
  - Asbestos status (confirmed via lab testing or suspected)
  - Condition of material and physical integrity of material (including friability, propensity for release, propensity for dispersion)
  - Prioritized recommendations for remedial work
  - the approximate quantities of material
  
- **The next asbestos management plan update is an opportunity to fill gaps.**
  - Estimated removal cost by the Qualified Specialist
  - Electronic records getting away from PDF deliverables

# Alleviate the Asset Register Challenge

- **How will the asset retirement obligation data be linked to the asset register while maintaining consistency with the Tangible Capital Asset (TCA) reporting methods used?**
  - ARO Standard: Whether a public sector entity records and accounts for its tangible capital assets at the component or the network level will be determined by the usefulness of the resulting information to the public sector entity and the cost versus the benefit of collecting and maintaining it. The allocation of asset retirement costs at the network or the component level shall be consistent with that used for the related tangible capital asset.
  - Industry practice: Though Asbestos Management Plans for building assets are detailed the asset register used for these same buildings are not. Facility assets are often not componentized to the same extent as others assets such as water, sewer, and roads are for the purposes of financial reporting.

# Root the Estimated Date in Local Practice

- **How will the estimated date of the obligation reflect building component lifecycles and asset management plans?**
  - ARO Standard: In certain cases, there may be an indeterminate settlement date for the asset retirement obligation. For example, a public sector entity may be uncertain when the cash flows associated with an asset retirement obligation will occur. Uncertainty about the timing and amount of settlement of the asset retirement obligation does not remove that obligation but will affect the measurement of a liability for that obligation.
  - Industry practice: Shearing layers, building changes happen at once at different stages... unless emergency...



# Q&A Session



# Thank you

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# Time for your questions

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# Contact us

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