

# Asset Retirement Obligations: Exploration of Application Scenarios

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## Extract, PSA Discussion Group Report on the Public Meeting – June 7, 2024

In August 2018, PSAB issued [Section PS 3280](#), *Asset Retirement Obligations*, in the CPA Canada PSA Handbook, which established standards for public sector entities for the accounting and reporting of liabilities associated with the retirement of tangible capital assets. Section PS 3280 requires that public sector entities exercise professional judgment when evaluating certain aspects of asset retirement obligations (AROs).

This submission presented application issues in areas where professional judgment had varied when assessing AROs:

1. Determination of **clear** legal obligations: [Paragraph PS 3280.10](#) details the modes by which a legal obligation can arise. Scenario 1 of the submission presents an example illustrating uncertainty as to the presence of a legal obligation.
2. Determination of a **reasonable estimate**: Scenario 2 of the submission presents a fact pattern where professional judgment and assumptions need to be applied to measure future liabilities.

This submission asked the Group to discuss these application issues and seek to assist PSAB in gathering feedback to support its future assessment as to whether a post-implementation review should be carried out or not with respect to [Section PS 3280](#).

Graeme Hawkins, Manager of Asset Retirement Obligations with 360 Engineering & Environmental Consulting Ltd., introduced the topic by sharing examples of how professional judgment has varied when assessing AROs. Hawkins provided the Group with measurement principles and practical experiences in working alongside public sector entities in similar circumstances to those presented in the scenarios of this submission.

### Scenario 1 – Recognition when a legal obligation is uncertain

The first issue discussed involved Government A having a library characterized by the following fact pattern:

- Building was constructed in 1972.
- Facility was used as a library since its inception.
- No documentation exists suggesting presence of asbestos or other hazardous materials from building plans.

- No intrusive sampling<sup>1</sup> or management survey<sup>2</sup> were conducted to confirm the presence of hazardous building materials, such as asbestos.
- Municipality is located in the province of Alberta.<sup>3</sup>
- Useful life of building was originally estimated at 45 years.
- Government A does not intend to disturb the building structure via demolition, major renovations, or alterations for the foreseeable future.

***Issue 1 – Given the fact pattern, what view best reflects Government A’s position regarding the applicability of Section PS 3280 and the need to recognize an ARO liability?***

The issue asked the Group to consider three views related to the fact pattern:

- View A: A legal obligation has clearly been established – the requirements of [paragraph PS 3280.10](#) are met, and Section PS 3280 would apply.
- View B: The legal obligation is not clearly established – the public sector entity must do additional work and apply professional judgment in determining the applicability of Section PS 3280.
- View C: The legal obligation is not clearly established; the public sector entity would not recognize an ARO, as the recognition criteria stated in Section PS 3280 are not met.

The Group was asked to consider whether a legal obligation is clearly established (View A) or not (View B or View C). Many Group members supported that although there may not be a clear obligation established based on the fact pattern, public sector entities should take additional steps in determining the applicability of [Section PS 3280](#) (View B) for the following reasons:

- Additional due diligence to support a position that an ARO can or cannot be recognized should be considered. Engineering studies, historical records, and other supporting documents may provide information necessary to confirm the presence of asbestos in the building.
- Future renovation and maintenance activities triggering disturbance to the building would potentially initiate a legal obligation. Although timing of the asbestos removal is conditional on the building undergoing renovations or being demolished, existing regulations create a legally enforceable

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<sup>1</sup> This type of asbestos survey is typically legally required to be undertaken prior to any construction, demolition, or refurbishment works being carried out for the purposes of workplace safety outlined in the Occupational Health and Safety Act, as disturbed asbestos fibres can be released by these activities and inhaled by those in the vicinity. Physical samples of various construction materials are taken from the work area and tested in a lab for asbestos content.

<sup>2</sup> A plain language description of the two common types of asbestos “surveys” can be found here: <https://www.haspod.com/blog/asbestos/asbestos-survey-types>.

<sup>3</sup> The province of Alberta was used as a reference point to relate this scenario to existing legislation within a specific jurisdiction. It is important to recognize that occupational health and safety legislative requirements vary by jurisdiction.

obligation for the entity to remove and dispose of the asbestos. The Group noted that, given the high likelihood of asbestos being present, its existence should be presumed.

- Developing a sound methodology and approach in these circumstances should be discussed between auditors and preparers. Members noted that other type of evidence may exist in determining the likelihood of asbestos so that its presence could be confirmed. Members shared that since the likelihood is very high, it could then become a measurement issue as to the extent of the asbestos within the building. A member noted that a full assessment on each building may not be feasible, and that making assumptions based on management's best available information should be applied by extrapolating to similar buildings as appropriate.
- A moral or ethical obligation in dealing with the potential existence of a hazardous material in a public building should be considered. Public sector organizations may have an obligation in serving public interest to determine the existence of asbestos in instances where there is high probability that it exists.

A few Group members noted that View A had merit because professional judgment can be applied to conclude that asbestos exists given the highly likelihood of the presence of the hazardous material as presented in the fact pattern:

- A moral and ethical obligation to recognize an ARO liability exists. A cautionary approach should be considered in anticipation of triggering legal requirements and obligations, and so [Section PS 3280](#) would apply.
- Engaging experts to apply reasonable parameters in establishing estimates and conclusive testing to determine if there is asbestos should be explored.
- A lack of conclusive evidence does not relieve a public sector entity of its obligations to take additional steps in determining the existence of a hazardous material. One member noted if other similar buildings have asbestos, an assumption can be made for the group of buildings regarding the presence of asbestos.
- One Group member referenced [paragraph PS 3280.18](#), which requires that a liability be recognized and that the ability to postpone the asbestos removal does not relieve the entity of the obligation. Since the existence of asbestos is deemed likely and will eventually need to be removed and disposed of because buildings have finite lives, the obligation should be disclosed.

- Public sector entities may face mounting pressure by the public and be well advised to “hurry up” and complete testing. Such steps may appease potential public scrutiny from any uncertainty regarding the existence of a hazardous material in a public building.
- A member noted that [paragraph PS 3280.09](#) lists the recognition criteria, and that given it is extremely unlikely that there is no asbestos, it is expected that future economic benefits would be given up. The building would be sold for less without remediation, and future economic benefits would be given up as the work would eventually need to be performed.

In summary, the Group concluded that additional evidence gathering must be considered. Even in the absence of intrusive testing, members concluded that additional research such as historical records, buildings of similar age, and other data may allow for management to make informed assumptions on the presence of asbestos and apply [Section PS 3280](#) accordingly.

### **Scenario 2 – Recognition when a reasonable estimate cannot be made**

The second scenario introduced Municipality ABC featuring the following fact pattern:

- Courthouse constructed in 1922; it is a registered historic property.
- Recent renovations of four buildings of similar age in the area revealed asbestos.
- Documentation exists suggesting presence of asbestos, but building plans are inconclusive as to where it is and how extensively it was used.
- Minimal intrusive sampling<sup>4</sup> has been conducted to confirm the presence of asbestos, as the building is not slated for renovation or demolition. Given the building’s historic nature and continuous use, comprehensive testing would be both challenging and costly, requiring significant disruption.
- Located in Alberta; so, the same occupational health and safety regulations as in Scenario 1 apply.
- Useful life of building originally estimated at 100 years. It is now fully depreciated. So, how the ARO would be recognized, if measurable, is also an issue.<sup>5</sup>
- Municipality ABC intends to maintain the courthouse and keep it operational for the foreseeable future; so, it is considered to still be in “productive use.”

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<sup>4</sup> This type of asbestos survey is typically legally required to be undertaken prior to any construction, demolition, or refurbishment works being carried out. Once the asbestos-containing materials are disturbed and their fibres are released, they can be inhaled by those in the vicinity. Although it is related to the United Kingdom, a plain language description of the two types of asbestos “surveys” can be found here: <https://www.haspod.com/blog/asbestos/asbestos-survey-types>.

<sup>5</sup> The Group discussed this issue in April 2021; the link to the meeting report can be accessed [here](#).

***Issue 2 – Given the fact pattern, what view best reflects Municipality ABC’s position regarding measurement of an ARO liability?***

The issue asked the Group to consider two views related to the fact pattern:

- View A: A reasonable estimate of the ARO liability can be made.
- View B: A reasonable estimate of the ARO liability cannot be made.

Most Group members were in support of View B and shared the following perspectives:

- A reasonable estimate does not have to be perfect. Estimates are to be revised based on management’s best estimate at the time, and revisions should be applied as better information becomes available.
- The basis of the building being classified as historic property raises additional complexity to what remediation or work may be allowable to the building. The intended future use and the maintenance and upkeep required for the building may allow for testing to be performed where management can make assumptions based on the best information available.
- A few members noted that [paragraph PS 3280.66](#) states that, in extremely rare cases, a public sector entity may not be able to make a reasonable estimate of the amount of the liability. Most members felt that assumptions could probably be made to put together a reasonable estimate.
- One Group member shared that the scenario could be very similar to what may be encountered in dealing with contaminated sites. Containment of a hazardous material rather than remediation may be more reasonable when considering the fact pattern in dealing with a heritage property. Costs to maintain and encapsulate the asbestos by controlling and managing the hazardous material may need to be monitored instead of factoring costs of disposal.

Some members shared that an ARO for a heritage asset may present different issues from what is expected of other tangible capital assets. View B may apply as there is no expectation of retiring or performing renovations to the building. Operating expenses in managing the asbestos in perpetuity and studies done to manage risks from potential hazards should be considered

The Chair noted that Group members were favouring View A in their comments, while balancing the challenges presented in the fact pattern because the building is a heritage property. Some felt that further guidance may be necessary to contemplate situations where a heritage asset may contain hazardous materials, and that PSAB should consider how [Section PS 3280](#) may be applied to such assets.

Ultimately, the Group expressed that management should be able to perform additional steps such as obtaining site assessment information, in absence of site investigation, to provide a reasonable estimate. Members encouraged PSAB to consider adding a project on heritage assets to its future technical agenda; and providing additional guidance on circumstances where hazardous materials may be present within heritage property as part of its future post-implementation review assessment of [Section PS 3280](#).

### **Roundtable Discussion**

The submission concluded with a roundtable discussion in which the Group was asked to consider initial and subsequent measurement challenges in determining ARO liabilities. The following points were raised:

- Impacts stemming from climate change over time may affect the useful life of tangible capital assets.
- Rising interest rates impact discount rates and future costs associated with liabilities associated with AROs.
- Maintaining appropriate data is important. Quality data, proper inputs, and appropriate assumptions are needed in tracking changes and remediation and accretion projections.
- Public sector entities need to preserve an inventory of tangible capital assets and continually monitor potential changes that may present changes to associated future liabilities.
- One Group member shared instances in which it may be difficult to determine which public sector entity is responsible for the ARO liability.