Subsequent Measurement of Asset Retirement Obligations (AROs) – Application Issues

Extract, PSA Discussion Group Report on the Public Meeting – November 13, 2025

Section PS 3280, *Asset Retirement Obligations,* applies to AROs associated with tangible capital assets controlled by a public sector entity that are in productive use and those that are no longer in productive use.

Section PS 3280 stipulates that the measurement of an ARO liability should result in the best estimate of the amount required to retire a tangible capital asset. This requires professional judgment and, in some cases, the help of other experts. The standard also notes that the carrying amount of an ARO liability should be reconsidered at each financial reporting date and given its long-term nature, the measurement of the amount is likely to change over the useful life of the tangible capital asset.

The submission's purpose was to discuss the following issues relating to the subsequent measurement of AROs.

Issue 1: Inflationary impacts – how does the current inflationary environment impact the carrying amounts of ARO liabilities?

The Group was asked to discuss the following views about whether inflationary assumptions should be considered when determining the subsequent measurement and valuation of ARO liabilities:

View A: Include inflation assumptions

Inflation assumptions should be incorporated into the measurement and valuation of ARO liabilities.

View B: Do not include inflation assumptions

Inflation assumptions should be ignored in the measurement and valuation of ARO liabilities (i.e., inflation impacts will be automatically factored in during the formal ARO reassessment process).

Summary

Most Group members agreed that regardless of the treatment applied, internal consistency in the assumptions and valuation methodology being applied is the most important factor to consider. For example, inflation assumptions should be incorporated if a nominal discounted cash flow model is applied (both within the discount rate and the cash flow assumptions applied). Conversely, entities using the current cost method would exclude inflation assumptions as these would be captured through the cost estimations obtained during the ARO reassessment process.

Several Group members acknowledged that, in certain circumstances, inflation assumptions may materially impact assets that have long useful lives due to the compound effects over time (e.g., 100 or more years), and that the treatment in practice (i.e., for including versus excluding inflation assumptions) may vary across different asset classes within a public sector entity and across different public sector entities.

The Group also discussed ARO reassessment frequency. While paragraph PS 3280.49 specifies that "[t]he carrying amount of a liability for an asset retirement obligation should be reconsidered at each financial reporting date," a Group member identified that a gap may exist under Section PS 3280, as the standard does not address the frequency that an ARO reassessment is required to be performed. This ultimately may negatively impact the accuracy of the ARO liability on a subsequent measurement basis. Accordingly, the Group recommended that PSAB consider establishing clearer guidance to address the frequency over which ARO reassessments may be required. See Issue 3 for more discussion on the topic.

Issue 2: How should updated information, assumptions or both be considered in the subsequent measurement of an ARO liability?

The Group was asked to consider the following scenario when discussing their views:

Municipality ABC recently sold a hospital. In preparation for the sale, the asbestos in the building needed to be removed or remediated. The actual costs incurred to remove the asbestos were significantly higher than the estimated amount recognized as the ARO liability associated with that tangible capital asset. At initial recognition of the ARO liability, the hospital was considered a representative example for geographically close buildings of a similar age. Accordingly, Municipality ABC and its experts used the hospital as a proxy for estimating the remaining ARO liabilities within its building asset class. Note: this example is provided solely to help facilitate a discussion of the different views among Group members. While Group members may support a specific view for this example, it is important to note that these views may change or differ depending upon the specific facts and circumstances involved as it relates to each specific case or transaction.

The Group was asked to discuss the following views relating to how the under-adjustment identified within the scenario should be treated as it relates to Municipality ABC's remaining portfolio of ARO liabilities. (Note that under the following views, reference has been made to both under/over-adjustments, as other situations may arise where an over-adjustment scenario may occur).

View A – Extrapolate

Extrapolation of the under/over-estimation adjustment across the remaining asset class of ARO liabilities is appropriate.

View B – Do not extrapolate

Extrapolation of the under/over-estimation adjustment across the remaining asset class of ARO liabilities is not appropriate.

View C – Partially extrapolate

Partial extrapolation of the under/over-estimation adjustment is appropriate (e.g., across specified assets or subcategory of the portfolio).

View D – Insufficient information

Insufficient information currently exists, so further consultation with experts (both internal and external) is required before considering any extrapolation or other measurement techniques. Under these circumstances, note disclosure considerations may be appropriate.

Summary

Most Group members supported View D, citing the following:

- The need for expert input would be required as insufficient information exists under this scenario to support extrapolating the under/over-adjustment over the entire population of remaining ARO-related assets.
- Professional judgment is required to determine the relevance of the under/over-adjustment identified against the other asset categories within the public sector entity's ARO portfolio.
- It is important to gain an understanding of the underlying cause generating the deviation (i.e., was this under/over-adjustment an outlier, or indicative of the whole population?).
- Extrapolation of the under/over-adjustment would only be valid if corroborating evidence exists to support that the under/over-adjustment is representative across the remaining portfolio of ARO-related assets.
- The risk and materiality of misstatement must be considered if extrapolation is done with insufficient evidence.

Several Group members also acknowledged the merits of View C, based on the following rationales:

- Partial extrapolation would be preferred over blanket adjustments across Municipality ABC's entire portfolio of ARO liabilities.
- Partial extrapolation may be appropriate for similar assets or subcategories.
- Conducting a full revaluation exercise could prove to be quite resource intensive, and thus both the costs and benefits of conducting this revaluation exercise must be carefully examined.
- New factors, events, or information may drive the need for the public sector entity to consider performing ARO reassessment(s) earlier than originally planned (e.g., increase in construction price index, discovery of new information, etc.).

During the discussion, some Group members raised the topic of inflation-related adjustments. They noted that if an inflation-driven under-adjustment was identified, then this may justify a broader extrapolation of the adjustment across the remaining portfolio of assets.

Finally, the Group discussed whether the historical sale of a similar or related asset with an underlying ARO liability may provide useful audit evidence for the measurement and valuation of an existing ARO liability. A Group member noted that it would be important to understand the nature or source of the gain/loss generated to help determine whether it was attributable to the tangible capital asset on hand, or to the ARO liability itself. That is, it could involve a valuations expert to determine the relative fair value allocation of the tangible capital asset on an unencumbered basis (i.e., without considering the ARO attached to it).

Ultimately, the Group concluded that while the sale of assets with AROs may provide useful audit evidence, it cautioned that this evidence must be carefully interpreted. A few Group members highlighted the importance of discussing any ARO re-estimation assumptions made with an auditor. They also noted that auditors would still investigate any material misstatements that were identified, regardless of the ARO reassessment policy applied by the public sector entity.

Issue 3: Roundtable discussion: When does new information trigger an ARO reassessment and to what extent?

Under Issue 1, paragraph PS 3280.49 specifies that ARO liabilities "should be reconsidered at each financial reporting date." Through this ARO reconsideration process, however, a public sector entity may identify a need to reassess its ARO(s) due to changing factors.

The Group was asked to discuss the various factors or indicators that may trigger the need for an ARO reassessment.

Roundtable discussion

The Group discussed that information relating to the following indicators may trigger the need for an ARO reassessment:

- regulatory/legal changes or interpretations;
- technological advances;
- market-condition changes;
- environmental standards, events or factors (e.g., forest fires, changing water levels, new or changes made to environmental standards issued, etc.);
- tangible capital asset impairments or experience with other related assets;
- new knowledge;

- third-party expert reports;
- internal policy changes;
- actual abatement costs incurred (and any related gain/loss generated on settlement of an ARO liability);
- unexpected events (e.g., contamination); and
- demolition or major renovations.

A Group member suggested that regulatory changes may be more heavily weighted as an ARO reassessment indicator. However, most of the Group agreed that none of the listed indicators should be weighted more or less for ARO reassessment considerations. Instead, most of the Group agreed that the materiality and significance of each factor would drive the need for an ARO reassessment, rather than the quantity of indicators (i.e., no fixed number of indicators exist that dictates the need for an ARO reassessment). The Group also emphasized the importance of exercising professional judgment when determining whether an ARO reassessment would be required.

Finally, the Group discussed how often AROs need to be reassessed. One Group member supported annual ARO reassessments at each reporting date. Several other Group members supported annual reconsideration of the ARO assumptions being applied, but only reassessing the ARO in accordance with the public sector entity's accounting policy (e.g., every three to five years), unless any triggering indicators are identified earlier. A few Group members also supported the idea of more frequent ARO reassessments during high-inflationary periods, while several others supported the view that an ARO reassessment should be initiated once a public sector entity begins incurring actual abatement costs, as this would ultimately help to inform on the ARO reassessment process itself.