

SECTION PS 3260

liability for contaminated sites

TABLE OF CONTENTS	Paragraph
Purpose and scope	.01-.07
Recognition	.08-.39
Environmental standard	.09-.13
Contamination	.14-.17
Direct responsibility	.18-.22
Accepting responsibility	.23-.31
Future economic benefits	.32-.35
Uncertain responsibility	.36-.39
Measurement	.40-.61
Recoveries	.62-.64
Disclosure	.65-.69
Effective date and transitional provisions	.70-.71
Glossary	Gloss
Decision tree	Appendix A
Illustrative examples	Appendix B

PURPOSE AND SCOPE

- .01 This Section establishes standards on how to account for and report a liability associated with the **remediation** of contaminated sites. Specifically, it:
- (a) defines which activities would be included in a liability for remediation;
 - (b) establishes when to recognize and how to measure a liability for remediation; and
 - (c) provides the related financial statement presentation and disclosure requirements.
- .02 In this Section, terms that appear in **bold** type are defined in the glossary of terms.
- .03 This Section provides guidance for applying the definition of liabilities set out in Chapter 8 of the Conceptual Framework, and the general recognition and disclosure standards in LIABILITIES, Section PS 3200, in accounting for and reporting a liability for contaminated sites. It may be useful to read this Section in conjunction with ASSET RETIREMENT OBLIGATIONS, Section PS 3280, CONTINGENT LIABILITIES, Section PS 3300, and CONTRACTUAL OBLIGATIONS, Section PS 3390. Nothing in this Section overrides any standard in another Section of the CPA Canada Public Sector Accounting Handbook. [Former paragraph PS 3260.03, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .04 For the purposes of this Section, contamination is the introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an **environmental standard**. A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. A contaminated site does not include airborne contamination or **contaminants** in the earth's atmosphere unless such contaminants have been introduced into soil, water bodies or sediment.
- .05 For the purposes of this Section, a liability for remediation normally results from items such as:
- (b) all or part of an operation of entities outside the government reporting entity that is no longer in productive use for which the government accepts responsibility (for example, an abandoned gas station); and
 - (d) an unexpected event resulting in contamination (for example, accidental toxic chemical spills or natural disasters).
- (paragraphs PS 3260.05(a) and (c) deleted) [Former paragraph PS 3260.05 retained in Archived Pronouncements.]
- .06 This Section does not apply to:

- (a) costs for acquisition or betterment of tangible capital assets that are within the scope of TANGIBLE CAPITAL ASSETS, Section PS 3150, to the extent that such costs do not exceed the future economic benefits related to the asset or post-remediation fair value of the asset if held for sale (for example, redevelopment of a contaminated site for use or sale);
- (b) liabilities associated with asset retirement obligations, which are covered in ASSET RETIREMENT OBLIGATIONS, Section PS 3280; and
- (c) liabilities associated with the disposal or sale of long-lived tangible capital assets (for example, privatization of water utility).

(paragraphs PS 3260.06(d) deleted) [Former paragraph PS 3260.06 retained in Archived Pronouncements.]

.07 This Section does not deal with disclosure requirements for the following items:

- (a) measurement uncertainty related to the estimate of a liability for remediation recognized or disclosed in financial statements (see MEASUREMENT UNCERTAINTY, Section PS 2130);
- (b) a liability for remediation when a reasonable estimate of the amount involved cannot be made (see LIABILITIES, Section PS 3200); and
- (c) a contingent liability for remediation (see CONTINGENT LIABILITIES, Section PS 3300).

RECOGNITION

.08 *A liability for remediation of contaminated sites should be recognized when, as at the financial reporting date:*

- (a) *an environmental standard exists;*
- (b) *contamination exceeds the environmental standard;*
- (c) *the government:*
 - (i) *is directly responsible; or*
 - (ii) *accepts responsibility;*
- (d) *it is expected that future economic benefits will be given up; and*
- (e) *a reasonable estimate of the amount can be made.*

An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria above are satisfied. When an obligation for remediation of contaminated sites is recognized as a liability it would be presented as a financial liability in the statement of financial position. [APRIL 2026] [Former paragraph PS 3260.08, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

Environmental standard

- .09 An environmental standard is generally set out in the form of a statute, regulation, by-law, order, permit, contract or agreement. As a result, it is legally enforceable and binding, and compliance is mandatory. Breaches may be enforced through prosecution, fines, jail and similar penalties, order or loss of permit. Compliance may also be enforced through administrative proceedings.
- .10 A government would evaluate the existence of an environmental standard based on existing or enacted legislation, contract or agreement in effect at the financial statement date. In determining whether an environmental standard exists, the government would not take into account proposed changes in legislation that may create an environmental standard, regardless of the effective date. A change in or adoption of a new environmental standard may result in a future obligation to remediate existing contamination, but at the financial reporting date, there is no existing environmental standard that would be precedent to recognition of a liability. If changes in legislation occur between the date of the financial statements and the date of their completion, refer to SUBSEQUENT EVENTS, Section PS 2400, for appropriate disclosures.
- .11 An environmental standard may be both quantitative and qualitative. A quantitative environmental standard may stipulate an acceptable or desirable ambient concentration of substances in soil and groundwater. Quantitative environmental standards are generally the most easily verifiable.
- .12 Regulatory provisions may prohibit adverse environmental impacts in qualitative terms. In such cases, the benchmarks for determining whether the environmental standard has been breached are highly variable. Exercise of professional judgment would be required in determining whether the government has a liability.
- .13 In some cases, environmental standards may be created by internal government policy or by guidelines developed by organizations external to the government (for example, recognized business, industry or government associations). Voluntary compliance with such environmental standards may create a liability. The determination would require the exercise of professional judgment considering the individual circumstances and the criteria for recognition of a liability in this Section and LIABILITIES, Section PS 3200.

Contamination

- .14 The existence of an environmental standard in and of itself is not the obligating event that creates a liability. The existence of contamination that exceeds an environmental standard at the financial reporting date is a necessary condition for recognition of a liability. For example, a site assessment completed at the site of a discontinued mine operation on Crown land has identified soil contamination that imposes an obligation on the government to undertake remediation

activities. It is the occurrence of the contamination that exceeds an environmental standard that is the past event or transaction that may result in the sacrifice of future economic benefits.

- .15 To determine if contamination exists that exceeds an environmental standard, it would be necessary to assemble and review all available historical and current information pertaining to the site or group of sites. Factors to consider include, but are not limited to, the following:
 - (a) the nature of past activities at the site(s) or adjacent properties;
 - (b) site(s) location, hydrology and geology;
 - (c) results from testing and field investigations;
 - (d) similarities to and experience at other known contaminated sites;
 - (e) significance of site(s); and
 - (f) cost versus benefit of conducting detailed site assessments.
- .16 The determination of whether contamination exceeds an environmental standard may be uncertain. Uncertainty about the existence or non-existence of contamination does not eliminate the need to determine whether a liability exists and would be recognized.
- .17 The determination will depend on the probability that future site investigations will confirm that contamination that exceeds an environmental standard existed at the financial statement date. If the probability is likely that future site investigations will confirm contamination, a liability would be recognized if the amount can be reasonably estimated.

Direct responsibility

- .18 A government may be directly responsible for remediation:
 - (a) because of its own past activities that, even though they may have been consistent with the environmental requirements at the time, have caused contamination (for example, military installations, operation of transportation works yards); and
 - (b) when activities such as mining or exploration occurred on government-owned land or on land that the government has since acquired, and a responsible party cannot be identified or, if identifiable, lacks the means to remediate the damage (for example, "inherited" responsibility for abandoned mines on Crown land through bankruptcy proceedings and court decisions).
- .19 A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. For purposes of this Section, a legal obligation can result from:
 - (a) agreements or contracts;
 - (b) legislation of another government; or
 - (c) a government's own legislation.
- .20 An agreement or contract could take the form of a certificate of approval governing the operation of a government facility. The certificate of approval contains enforceable requirements for the facility's operation. Non-compliance with the terms and conditions of the certificate of approval could result in the government incurring a liability for remediation of environmental damage. For example, a government has a pesticide storage facility that it operates under an environmental certificate of approval. It could be responsible under the certificate of approval for cleanup of contaminated ground water as a result of the failure of the facility's containment system.
- .21 In the event of contamination, another government's legislation may create a legally enforceable obligation for a government. For example, as a result of inventory shrinkage, a provincial ministry of environment has issued an order under petroleum storage regulations of its environmental protection act to a local government to replace petroleum storage tanks in its public works yard and clean up contamination. The local government would recognize a liability for removal and clean up costs.
- .22 A government's own legislation that contains details of the government's policy in relation to a particular program or regulation of its activities can create a legal obligation when it or one of its organizations is non-compliant with legislation. In these circumstances, this Section would require that the government recognize a liability if other recognition criteria are met.

Accepting responsibility

- .23 A government may voluntarily assume responsibility for remediation of contaminated sites (for example, abandoned gas stations) through its own actions or promises. However, only those assumed obligations for remediation that meet the definition of a liability at the financial statement date can be recognized. Obligations that are based on intention or policy of a government may not satisfy the three essential characteristics of a liability for recognition.
- .24 Most liabilities for remediation arise from legal obligations, settlement of which can be enforced by a court of law. LIABILITIES, Section PS 3200, recognizes that present obligations do not only result from legally enforceable agreements, contracts or legislation, but may also result from constructive and equitable obligations. Some constructive and equitable obligations may be enforced by a court in accordance with the legal principle known as **promissory estoppel** or other legal principles having similar effect.

- .25 Constructive and equitable obligations require the careful application of the definitions because determining when a government has such an obligation can be a matter of professional judgment. In the absence of legally enforceable agreements, contracts and legislation, it is often difficult to determine whether a government is actually bound by an obligation to a third party. In exercising professional judgment in the assessment of whether a constructive and equitable obligation exists at the financial reporting date, the government would consider the criteria in LIABILITIES, Section PS 3200, that would indicate the government has created a valid expectation among others that leaves it with no realistic alternative but to remediate a contaminated site or group of sites.
- .26 A government may have a policy or an established pattern of past practice of complying with its own internal environmental standards or guidelines established by external organizations. Absent evidence to the contrary, others can presume that the government will continue its policy or past practice. In these situations, the government may have created a valid expectation that it will continue to remediate contaminated sites in compliance with these standards and guidelines. It may have little or no discretion but to take action. In these cases, it may have a constructive and equitable obligation that it needs to record as a liability. On the other hand, if the government has discretion to alter its policy or past practice, it may not have a constructive and equitable obligation or a liability.
- .27 An essential characteristic of a liability is that there is a present obligation resulting from a past event that leaves the government little, if any, discretion to avoid settling it. Only present obligations arising from past events existing independently of the government's future actions result in liabilities. An intention to incur an expenditure in the future is not sufficient to give rise to a present obligation even if the outflow is necessary for the government to fulfill its inherent responsibilities.
- .28 Evidence that a government may have a present obligation for remediation separate from legal documents can include, but is not limited to, consideration of the following:
- (a) The government body, management board or person with the appropriate level of authority has committed the government to a remediation plan.
 - (b) The remediation plan identifies the specific location of the contaminated site or sites.
 - (c) The remediation plan has been communicated to those directly affected (for example, residents of surrounding communities) through public consultation, information sessions, workshops or other activities in such detail as to allow those affected to determine the benefits that would accrue to them.
 - (d) The remediation plan specifically identifies the target level of reduction in risk the site(s) pose to human health and the environment and the amount of the environmental costs to be incurred to achieve those targets.
 - (e) The time frame for implementing the plan has been identified and indicates that significant changes to the plan are not likely.
 - (f) The details of the plan are such that there is a reasonable expectation that the promise can be relied upon.
- .29 The mere act of budgeting for remediation activities does not result in incurring a liability. Just because a government budgets for remediation activities does not mean a liability actually exists. As well, care must be exercised in using budgeted amounts as the basis of measurement of a liability that may or may not reflect the full extent of the liability.
- .30 A government announcement to provide long-term funding for remediation activities may not result in a liability. In some cases, the government maintains total discretion over the eventual disposition of the funds committed to remediation activities. Alternatively, a government may commit funding for remediation for higher risk sites. However, there may be similar sites of lesser significance and risk that the government is not committing to remediate. Nevertheless, these lesser risk sites may still represent a liability for the government.
- .31 Elected representatives or government officials may announce government intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial statements, there is no liability. However, it may be a subsequent event (see SUBSEQUENT EVENTS, Section PS 2400).

Future economic benefits

- .32 The existence of contamination that exceeds an environmental standard may create a liability regardless of whether a government chooses to perform remediation activities or not. A government may have a present obligation to remediate the contamination now or at some future date. The timing of the settlement does not relieve the government of its present obligation or recognition of the associated liability. The timing would be reflected in the measurement of the liability.
- .33 It is possible that a present obligation would not be recognized as a liability because it is not expected that future economic benefits will be given up. "Expected" is used with its usual general meaning and refers to that which can reasonably be anticipated, contemplated or believed on the basis of available evidence or logic but is neither certain nor proved.
- .34 Whether a present obligation is recognized as a liability or not will require the exercise of professional judgment in determining whether the specific circumstances meet recognition criteria. Consideration would be given to all information available, supplemented by experience in similar situations and, in some cases, reports from independent experts.

- .35 If a liability is not recognized, it may be appropriate to provide information about the existence, nature and extent of the present obligation in notes to the financial statements. For further guidance, refer to Chapter 9 of the Conceptual Framework, LIABILITIES, Section PS 3200, and CONTINGENT LIABILITIES, Section PS 3300. [Former paragraph PS 3260.35, amended by the Conceptual Framework, retained in Archived Pronouncements.]

Uncertain responsibility

- .36 There may be a situation when an environmental standard exists and contamination exceeds the standard. The government has determined that it is not directly responsible, nor does it accept responsibility. However, there is uncertainty as to whether the government may be responsible.
- .37 A government may have a contingent liability. The existence of contamination that exceeds an environmental standard is an existing condition or situation. In some cases, a future confirming event is required to determine a government's responsibility. This situation is a matter of professional judgment and requires an assessment of the likelihood that the future event will confirm responsibility. CONTINGENT LIABILITIES, paragraph PS 3300.13, outlines the range of probabilities.
- .38 If it is likely that the future event will confirm the government's responsibility, a liability would be recognized if the amount can be reasonably estimated. If it is unlikely that a government will be responsible, no liability would be recognized. If the outcome of the future event cannot be determined, the existence, nature and extent of the contingent liability would be disclosed. CONTINGENT LIABILITIES, Section PS 3300, provides additional guidance.
- .39 If there is uncertainty about whether contamination exists that exceeds an environmental standard, the future event that resolves the uncertainty is within the government's control (for example, completion of a site assessment). The fact that a government has evidence to suggest that contamination may exist, but lacks specific information to confirm with certainty the nature and extent, is a measurement issue. This type of uncertainty does not constitute the type of uncertainty that characterizes a contingent liability.

MEASUREMENT

- .40 *The estimate of a liability should include costs directly attributable to remediation activities. Costs would include post-remediation operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site. The estimate would include costs of assets acquired as part of remediation activities to the extent those assets have no alternative use. [APRIL 2014]*
- .41 Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, and legal and other professional services. Costs related to natural resource damage (for example, revegetation outlays) are included only if incurred as part of an environmental standard.
- .42 Estimated costs would be those required to bring a site up to the current minimum standard for its use prior to contamination. For example, there may be a lower standard for land that was used for industrial purposes as opposed to residential purposes.
- .43 In some cases, the remediation strategy for a contaminated site involves ongoing activities such as treatment of effluent from a contaminated site. These are part of the remediation activities rather than a separate future service obligation. When ongoing operation, maintenance and monitoring are an integral part of the remediation strategy for a contaminated site, the estimate of the liability would include the costs for such activities.
- .44 Remediation activities may involve the acquisition of an asset that would otherwise meet the definition of a tangible capital asset. Although the asset is providing goods and services, there are no ongoing operations against which the costs can be allocated. The cost of the asset required for remediation activities is reported as an expense, not an asset, in the period when a liability is recognized.
- .45 An asset acquired as part of remediation activities may have an alternative use. If the asset has an alternative future use, only that portion of its estimated cost related to its use in remediation activities would be included in the estimate of a liability. When the asset is actually acquired, only those expenditures that relate to the alternative use would be capitalized and would be amortized to expense over the remainder of its useful life in the periods of alternative use.
- .46 *A liability for remediation should be estimated based on information available at the financial statement date. [APRIL 2014]*
- .47 The estimate of a liability for remediation should be based on existing environmental standards and technology expected to be used in remediation activities. The effect of new legislation would not be taken into consideration in estimating the liability until such legislation is enacted regardless of effective date.
- .48 A government's total liability may not necessarily become determinable at a specific point in time. The amount of a liability may become determinable over a continuum of events and activities as information becomes available. For example, the estimate of costs may only become known as the government completes the various stages of assessing the extent of the contamination. In these cases, the government would recognize a liability based on management's best estimate at the time.
- .49 When a government is able to estimate the environmental costs of all stages of remediation activities because the situation is common, the government would use its experience as the basis for the estimate. For example, the remediation activity involves removal of underground fuel storage tanks or is similar to other situations with which the government has experience. In these cases, the government would recognize the entire estimated liability.

- .50 If new information becomes available between the financial statement date and the date of completion of the financial statements that would affect the estimates of a liability, this would be accounted for in accordance with SUBSEQUENT EVENTS, Section PS 2400.
- .51 It may often be necessary to estimate the amount of a liability in situations when a detailed site investigation has not been completed, but there is evidence to suggest that contamination exists that exceeds an environmental standard. Consideration would be given to available site assessment information and experience gained at other sites that have typical or common characteristics such as similarities in historical land use activities. Estimating the amount of a liability requires the exercise of professional judgment. Amounts recognized would be based on the best available information.
- .52 In some cases, an estimate of a liability may only be based on an individual site investigation that takes into consideration unique site characteristics such as the historical land use, site-specific conditions and nature and extent of contamination. If a reasonable estimate of the amount cannot be made, it may be necessary to disclose the nature of the liability and the potential effect on the government's financial statements when the liability becomes measurable.
- .53 When the estimate is based on a site assessment, a government may not complete a subsequent site assessment in each reporting period because of the cost of gathering and processing information required. In the years between completion of site reassessments, a review of the estimate of the liability could be based on an extrapolation of previously completed site assessments, taking into consideration such factors as changes to the remediation strategies, technological changes, experience gained, changes to assumptions, actual expenditures, changes in legislative standards, unforeseen changes in cost estimates. When the effect of any change is significant, recognition of a new estimate may be necessary.
- .54 Events that may indicate a need to do a detailed reassessment of contaminated sites upon which the estimate of the liability is based can include, but are not limited to, consideration of the following:
- (a) technological developments;
 - (b) lapsed time since the last site assessments were completed;
 - (c) new information from detailed site assessments, site characterizations, or technical reviews done on similar contaminated sites; and
 - (d) a change in legislation.
- .55 *The measurement technique adopted by a government should result in the best estimate of the amount required to remediate contaminated sites.* [APRIL 2014]
- .56 The best estimate can be described as the amount that a government would rationally pay to settle or otherwise extinguish the liability at the financial statement date. The amount would be based on the best estimate of the expenditures required to complete the remediation. The estimate of expenditures would require professional judgment supplemented by experience, third party quotes and, in some cases, reports of independent experts.
- .57 Professional judgment will be required in assessing the appropriate measurement technique that results in the best estimate of the amount required to settle or otherwise extinguish the liability. The appropriate measurement technique depends on the extent and complexity of contamination, materiality of the damage, and time frame over which remediation activities will occur.
- .58 When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is often the best available technique with which to estimate the measure of a liability.
- .59 *The carrying amount of a liability for remediation should be reconsidered at each financial reporting date. Any revisions to the amount previously recognized should be accounted for in the period in which revisions are made.* [APRIL 2014]
[Former paragraph PS 3260.59 retained in Archived Pronouncements.]
- .60 A liability continues to be recognized until it is settled or otherwise extinguished. Disbursements would be deducted from the reported liability when they are made.
- .61 Continual assessment of the carrying amount of a liability is required. When a change in an estimate of the amount of a liability is required, it would be accounted for in accordance with ACCOUNTING CHANGES, Section PS 2120.

RECOVERIES

- .62 *A recovery related to a liability for remediation of contaminated sites should be recognized when:*
- (a) *the recovery can be appropriately measured;*
 - (b) *a reasonable estimate of the amount can be made; and*
 - (c) *it is expected that future economic benefits will be obtained.*
- A recovery should not be netted against the liability.* [APRIL 2021]
[Former paragraph PS 3260.62 retained in Archived Pronouncements.]
- .63 *A contingent recovery should be disclosed in accordance with CONTINGENT ASSETS, Section PS 3320.* [APRIL 2021]
[Former paragraph PS 3260.63 retained in Archived Pronouncements.]
- .64 Recoveries may result when a public sector entity is able to recover remediation costs from a third party by virtue of a claim made under an insurance contract. Accounting for recoveries depends on whether they meet the definition of an

asset or a contingent asset (see ASSETS, Section PS 3210, and CONTINGENT ASSETS, Section PS 3320). [Former paragraph PS 3260.64 retained in Archived Pronouncements.]

DISCLOSURE

- .65 *A financial statement should disclose information about:*
- (a) *the nature and source of the liability;*
 - (b) *the basis for the estimate of the liability;*
 - (c) *when a net present value technique is used, the estimated total undiscounted expenditures and discount rate;*
 - (d) *the reasons for not recognizing a liability; and*
 - (e) *the estimated recoveries.* [APRIL 2014]
- .66 The level of detail disclosed by a government reflects the highly aggregated nature of financial statements. When deciding the level of detail to disclose, governments consider the usefulness of the information to readers in assessing the nature and extent of a government's liability for remediation of contaminated sites. It may be useful to group similar items together. The level of disclosure also considers the sensitivity of the information.
- .67 The notes to the financial statements would disclose the basis of recognition and measurement of the liability. Disclosures would include the significant assumptions underlying the reported amount. If a present value technique is used to estimate the liability, the estimated total future expenditures for settlement of the liability and the discount rate would be disclosed. When possible, the anticipated timing of future expenditures would also be disclosed. Additional disclosures are encouraged when the disclosures will enhance the financial statement users' understanding of the estimate of the liability.
- .68 When a liability is not recognized, the reason why a reasonable estimate of the amount involved cannot be made or why it is not expected that economic benefits will be given up would be disclosed.
- .69 Uncertainties affecting the measurement of a liability for remediation of contaminated sites are disclosed in accordance with MEASUREMENT UNCERTAINTY, Section PS 2130.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

- .70 This Section applies to fiscal years beginning on or after April 1, 2014. If application of the Section results in a change in accounting policy, ACCOUNTING CHANGES, Section PS 2120, applies. Earlier adoption is encouraged.
- .71 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraph 3260.08. The amendment is applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.

GLOSSARY

This Glossary is an integral part of this Section and is therefore a primary source of GAAP identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(i).

Contaminants are any physical, chemical, biological or radiological substance in air, soil, water or sediment that has an adverse effect. Any chemical substance whose concentration exceeds background concentrations or that is not naturally occurring in the environment.

An **environmental standard** refers to any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment.

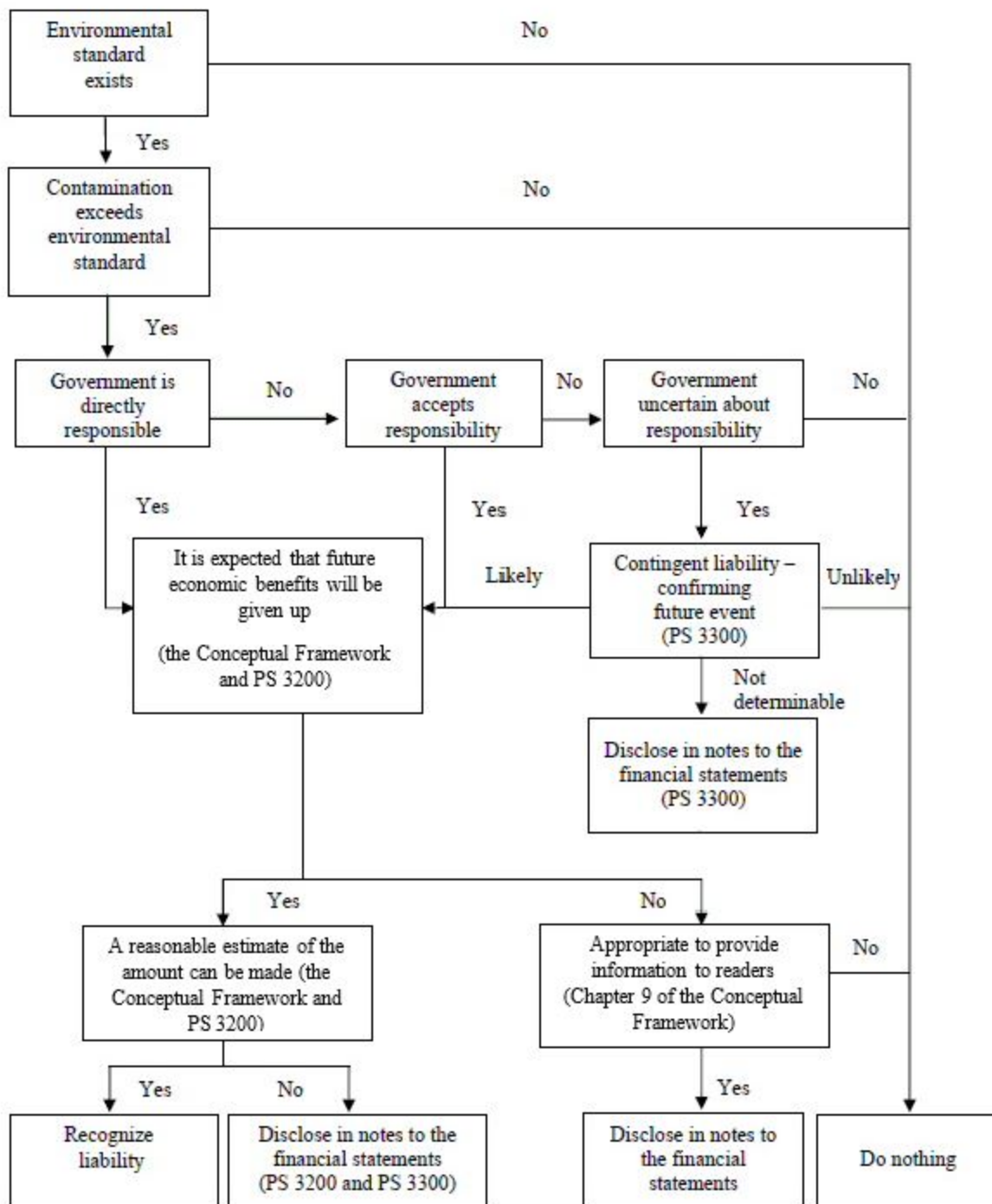
Promissory estoppel is defined in *Black's Law Dictionary* as "the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment. The Quebec Civil Code does not recognize the doctrine of promissory estoppel but Quebec courts have developed a similar concept known as "la fin de non-recevoir".

Remediation means the improvement of a contaminated site to prevent, minimize or mitigate damage to human health or the environment. Remediation involves the development and application of a planned approach that removes, destroys, contains, or otherwise reduces availability of contaminants to receptors of concern.

APPENDIX A

DECISION TREE — LIABILITY FOR CONTAMINATED SITES

The following decision tree has been prepared to illustrate the accounting treatment specified in this Section. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



[Former Decision Tree — Liability for Contaminated Sites, amended by the Conceptual Framework, retained in Archived Pronouncements]

APPENDIX B

ILLUSTRATIVE EXAMPLES

The following examples have been prepared by CPA Canada staff to illustrate how the accounting treatment specified in this Section might be applied. The examples discuss generalized situations. Unless otherwise stated, the examples assume that it is expected that future economic benefits will be given up and a reasonable estimate of the amount can be made.

The specific facts and circumstances of each situation that may require recognition of a liability for contaminated sites need to be considered carefully in applying the Section. Matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

TABLE OF CONTENTS	Paragraph 1
Recognition	IE.01-IE.16
Example 1 – Quantitative environmental standard exceeded	IE.02-IE.04
Example 2 – Qualitative environmental standard exceeded	IE.05-IE.07
Example 3 – Uncertainty about the existence of contamination	IE.08-IE.10
Example 4 – Contaminated site not expected to result in giving up of future economic benefits	IE.11-IE.13
Example 5 – Responsibility is uncertain	IE.14-IE.16
Measurement	IE.17-IE.23
Example 6 – Acquisition of an asset as part of remediation activities	IE.18-IE.20
Example 7 – Acquisition of an asset as part of remediation activities with an alternative use	IE.21-IE.23

RECOGNITION

IE.01 Examples 1-5 incorporate simplified assumptions to illustrate the recognition provisions of this Section.

Example 1 — Quantitative environmental standard exceeded

IE.02 Environmental protection legislation has established a maximum standard for concentrations of arsenic for ground water runoff at 10 parts per billion to protect environmental quality and human health from the long-term effects of exposure to arsenic. Legislation requires a responsible party to perform remediation activities if the concentrations in runoff exceed the standard.

IE.03 Runoff from tailings at an abandoned mine site on Crown lands contains concentrations of arsenic that exceed the accepted maximum standard. The operator of the mine no longer exists. The government is responsible for remediation because it owns the land.

IE.04 The government would recognize a liability for the cost of remediation to reduce the concentrations of arsenic in runoff from the site to the maximum standard as a responsible party under legislation.

Example 2 — Qualitative environmental standard exceeded

IE.05 Environmental protection legislation for a jurisdiction stipulates that no person may discharge a contaminant into the natural environment that causes an adverse effect. An adverse effect could be impairment of the natural environment for any use that can be made of it.

IE.06 Leachate from a landfill operation has contaminated ground water and drinking water systems adjacent to the site. Under legislation, the local government is responsible to remediate contamination.

IE.07 The government would recognize a liability for the cost of remediation of the contaminated drinking water systems.

Example 3 — Uncertainty about existence of contamination

IE.08 A government has compiled an inventory of abandoned mine sites on Crown land within its jurisdiction that are known or suspected to be contaminated. Identification of the sites is intended to assist with effective allocation of resources to investigate, manage and remediate sites with the highest potential to negatively impact public health and the environment.

IE.09 The government has completed environmental site assessments at some of the more significant sites in the inventory. The results confirm that contamination exists that exceeds an environmental standard. Based on the available information, there is evidence to suggest that other sites in the group have been contaminated and could require remediation.

IE.10 Uncertainty about the existence or non-existence of contamination does not eliminate the need to determine whether a liability exists. Determining whether a liability for remediation of a contaminated site exists requires an assessment of the probability that future site investigations will confirm that contamination existed at the financial statement date. If it is likely that some or all of the other sites in the group have been contaminated and require remediation, a liability would be recognized.

Example 4 — Contaminated site not expected to result in giving up of future economic benefits

IE.11 An entity is responsible for an abandoned mine site on Crown land where a site assessment has confirmed that contamination exists that exceeds an environmental standard. The site is in a remote location and the contamination is contained at the site. The contamination is not likely to affect public health and safety, cause damage, or otherwise

- impair the quality of the surrounding environment. Due to these factors, the government does not expect to remediate the site. The site will continue to be monitored as part of the government's ongoing environmental protection program.
- IE.12 Whether the present obligation to remediate the contaminated site is recognized or not will require the application of professional judgment. In this case, the present obligation to remediate the contaminated site meets the criteria in paragraph PS 3260.08(a)-(c) and (e). However, the government does not expect to perform remediation activities, nor is it likely to be required to remediate the site. Since the government does not expect that the present obligation will result in the giving up of future economic benefits, it would not recognize a liability because the criterion in paragraph PS 3260.08(d) has not been met.
- IE.13 Therefore, a present obligation to remediate a contaminated site may have all the essential characteristics of a liability, but still not be recognized as a liability because it does not meet all the recognition criteria. That is, in this case, it is not expected that future economic benefits will be given up. The determination of whether economic benefits will be given up or not will require the application of professional judgment considering the specific circumstances. If a present obligation is not recognized, it may be appropriate to provide information about it in notes to the financial statements. For further guidance, refer to Chapter 9 of the Conceptual Framework, and LIABILITIES, Section PS 3200. [Former paragraph PS 3260.B13, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- Example 5 — Responsibility is uncertain**
- IE.14 Underground sources of drinking water within a government's jurisdiction are contaminated. The government operates a solid waste landfill site within the vicinity of the contaminated wells. As at the financial statement date, the environmental regulator for the jurisdiction is conducting an investigation into the nature and source of the contamination. The government has determined it is not responsible, nor does it accept responsibility, for remediation of the contamination. However, there is uncertainty about responsibility that will be resolved by a ruling of the environmental regulator.
- IE.15 The government may have a contingent liability. The existence of contamination that exceeds an environmental standard is an existing condition or situation. A decision by the environmental regulator that a government is or is not responsible is the future event not wholly within the government's control that will resolve the uncertainty. The outcome of the future event will confirm the incurrence or non-incurrence of a liability.
- IE.16 Determining whether a liability for remediation of a contaminated site exists at the financial statement date requires an assessment of the probability that the outcome of the future event will confirm responsibility. For appropriate recognition and disclosure guidance, refer to CONTINGENT LIABILITIES, Section PS 3300.

MEASUREMENT

- IE.17 Examples 6-7 incorporate simplified assumptions to illustrate the measurement provisions of this Section.
- Example 6 — Acquisition of an asset as part of remediation activities**
- IE.18 As part of a remediation plan, a water treatment plant is required to treat water effluent from an abandoned mine site on Crown land. The water treatment plant will be required for an extended period. The asset will not have an alternative future use.
- IE.19 The acquisition of the water treatment plant would otherwise meet the definition of a tangible capital asset. The useful economic life of the water treatment plant will extend over more than one accounting period and it will be used to treat effluent from the site on a continuing basis. Although the water treatment plant is used in the production or supply of goods and services, there are no ongoing operations against which the costs can be allocated.
- IE.20 The estimated cost of the water treatment plant asset required for remediation activities is reported as an expense, not an asset, in the period when the liability is recognized.
- Example 7 — Acquisition of an asset as part of remediation activities with an alternative use**
- IE.21 The situation is similar to Example 6, except that the water treatment plant is also going to be used for the treatment of potable water for consumption.
- IE.22 The portion of the water treatment plant that is held for use in the production or supply of potable water would meet the definition of a tangible capital asset. The expenditures related to the portion of the water treatment plant that will be used in the production or supply of potable water for consumption would be capitalized at the time of acquisition and amortized over its useful life when put into service.
- IE.23 Only that portion of the estimated cost of the water treatment plant related to its use in remediation activities would be reported as an expense, not an asset, in the period when a liability is recognized.

Footnotes

1. Editorial change, paragraph renumbering only (February 2025).

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