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1. Effective Date

1.1 This policy is effective on **13 October 2022**.

1.2 The policy was approved by the Assistant Deputy Minister, Finance (ADM(Fin)) on **13 October 2022**.

2. Application

2.1 This policy applies to all of the Department of National Defence's (DND) asset retirement obligations (ARO) associated with tangible capital assets (TCAs) that are in productive use and those that are no longer in productive use and reported on in the departmental financial statements.

3. Context

3.1 TCAs are recorded at their historical cost, which includes costs that are directly attributable to the acquisition, construction, development, or betterment of a TCA. Usually these costs are incurred before the asset is put into service, such as the purchase price of the TCA. However, some TCAs have associated legal obligations whose costs are only incurred when the asset is retired. This Financial Administration Manual (FAM) chapter defines the DND and Canadian Armed Forces (CAF) financial management (FM) policy requirements for the appropriate accounting and reporting of these asset retirement obligations.

3.2 Due to the nature and complexity of its programs, the department and the CAF are faced with unique situations that may not be addressed or fully articulated under the Public Sector (PS) Accounting Standards 3280 Asset Retirement Obligations. This policy is required to outline and explain the DND/CAF ARO FM policies and practices in these circumstances and does not generally repeat any of the information in PS 3280.

3.3 All financial documentation supporting the transactions must be retained for 6 years from the end of the fiscal year in which the transaction takes place. This includes contracts, invoices, signatures and other proofs of exercised delegated authority, and data and information that support accounting estimates.

3.4 See Appendix A for the definitions applicable to this policy and a list of acronyms used.

4. Objectives and Expected Results

4.1 The objectives of this policy are to:

- Identify the DND/CAF key stakeholders involved with ARO and outline their roles and responsibilities; and
- State and explain the DND/CAF FM policies and standards for ARO that are not addressed in PS 3280 Asset Retirement Obligations.

4.2 The expected results of implementing this policy are:

- Effective governance and oversight over DND/CAF ARO;
- Effective controls over DND/CAF ARO;
- Key DND/CAF stakeholders are aware of and understand their roles and responsibilities with respect to ARO; and
- DND/CAF's ARO's related are appropriately recorded in the departmental financial management system (FMS) on a timely basis.

5. Requirements

Definition of ARO

5.1 ARO are legal obligations associated with the retirement of a TCA (PS 3280.08(d)).

Recognition of an ARO Liability

General

5.2 Further to PS 3280.09, DND must recognize a liability for ARO when:

- There is a legal obligation to incur retirement costs in relation to a TCA;
- 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.

Legal Obligations

5.3 For the purposes of this FM policy, a legal obligation can result from (PS 3280.10):

- Agreements or contracts;
- Legislation of another government;
- The Government of Canada's (GoC) own legislation; or
- A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel.

5.4 Further to PS 3280.14, where an ARO is established by agreement, contract or legislation, the obligation to incur costs to retire the tangible capital asset is legally enforceable and compliance is mandatory. In the context of an agreement, enforcement is usually done through a claim in damages and, by exception, through an injunction or declaratory judgment. In the context of legislation, enforcement is usually done through fines and/or loss of permit, and, in more serious cases, through prosecution that may result in fines and/or imprisonment.

5.5 In other cases, a promise made by an authorized representative of the GoC to a third party, external to the GoC, may also create a legally enforceable obligation related to a DND TCA under the doctrine of promissory estoppel. In the case of a promise conveyed to a third party, the facts and circumstances need to be considered carefully in determining whether that promise has imposed a legal obligation (see also the Existence Uncertainty subsection below). A legal opinion must be sought when there is a possibility that DND may have an ARO due to promissory estoppel.

Past Transaction or Event

5.6 The existence of an agreement, contract, legislation or another legally enforceable obligation is not the event that creates the liability. It is the acquisition, construction, development or the subsequent use of the TCA that is the obligating event (PS 3280.17). For example, if DND acquires a building that contains asbestos and regulations require handling and disposing of the asbestos in a prescribed manner when the building is disposed of, the costs to remove the asbestos must be recorded as a liability when DND acquires the building.

5.7 Further to PS 3280.19, in other cases, the liability for an ARO is incurred incrementally through the normal use of a TCA. For example, in the case of a landfill site, if an environmental approval requires a landfill operator to complete certain post-retirement activities that are directly linked to the volume of waste accepted, then as waste is added to the landfill, these costs to complete post-retirement activities must be recognized and recorded as a liability incrementally over the life of the TCA as the site accumulates more waste.

5.8 Further to PS 3280.20, ARO that result from the normal use of a TCA are predictable, likely to occur and unavoidable as a result of operations.

5.9 It is possible that a change in circumstance during the life of the TCA may give rise to a new liability as a result of a past transaction or event. Only when the change in circumstances occurs and the obligation arises would the costs be accounted for. For example, if the GoC were to pass a law that required military vessels be disposed of in a prescribed manner, then DND would have to record an ARO for these added disposal costs for each such vessel that DND owned when the law came into effect.

5.10 Costs resulting from a catastrophic event, such as a flood, are considered unexpected and are not recognized as ARO (PS 3280.20).

Inclusions and Exclusions to ARO

5.11 Examples of ARO include, but are not limited to, the following:

- The demilitarization of military assets at the time of disposal, in accordance with relevant regulations and standards;
- In the case where a building is demolished, the disposal of debris in accordance with relevant regulations; and
- The disposal of regulated substances present within TCAs in accordance with relevant regulations and standards.

5.12 ARO do not include the following:

- Costs that arise from the normal use of a TCA, but that are not associated with the retirement of the TCA. For example, if the normal use of a TCA creates pollution or hazardous material that must be remediated or otherwise managed during the useful life of the TCA, these costs are not accounted for as ARO because they are not associated with the retirement of the TCA; and
- Costs incurred due to legal obligations to remediate or risk-manage contaminated or unexploded explosive ordnance (UXO)-affected sites where the contamination

has exceeded an environmental standard, when the legal obligations are not related to the retirement of the site. These liabilities are accounted for as remediation liabilities. Refer to FAM Chapter 1021-3 – Remediation Liabilities for further information.

Existence Uncertainty

5.13 Further to PS 3280.23, in some circumstances, a public sector entity may have doubts as to the existence of an ARO. For example, DND may be uncertain whether it has incurred an obligation through the operation of the doctrine of promissory estoppel. The existence of any liability in such cases is contingent on a future determination by a court, a regulator or some other competent authority, or a future determination by DND that it would be held liable. DND may be required to record or disclose a contingent liability in these situations. Refer to FAM Chapter 1021-4 – Contingent Liabilities and Contingent Assets for further information. If a liability for an ARO is recognized, it must be accounted for in accordance with this policy.

Recognition and Allocation of Asset Retirement Costs

General

5.14 An asset retirement cost is the estimated amount required to retire a TCA (PS 3280.08(c)). Asset retirement costs are necessary and an integral part of owning and operating the related TCA (PS 3280.26). When a liability must be recorded for an ARO, the asset retirement costs are usually added to the cost of the related TCA and amortized over its useful life, although they are expensed in certain circumstances as explained in this section. The FM policy on how to estimate the amount of the costs of an ARO is covered in the sections "Initial Measurement of ARO" and "Subsequent Measurement of ARO".

TCAs in Service

5.15 For TCAs still in service, DND recognizes an asset retirement cost by increasing the recorded value of the related TCA (i.e. the amount is added to the TCA's net book value (NBV)) by the same amount as the liability.

5.16 Asset retirement costs are amortized using the same amortization method and rate as the associated TCA over its remaining useful life. For DND, this means that the costs are amortized using the straight line method, and the amortization rate depends on the useful life of the TCA. Amortization is recorded monthly. Refer to FAM 1020-4 Tangible Capital Assets for more information on useful life and amortization.

5.17 Further to PS 3280.30, the cost of an ARO is added to the cost of the TCA that is still in service even if the TCA is fully amortized and has a NBV of $0. The cost of the ARO would be amortized over the remaining useful life of the TCA. Note that the remaining useful life of the TCA may need to be revised. Refer to FAM Chapter 1020-4, Tangible Capital Assets for further information.

TCAs Permanently Removed from Service

5.18 Further to PS 3280.32, if an ARO arises when a TCA has been permanently removed from service (but is still recognized because it was owned by the department or acquired by capital lease), the asset retirement costs are immediately expensed. This is done because there are no future economic benefits associated with the asset retirement costs. For example, this could happen if new legislation, created after a TCA is removed from service, now requires disposing of the TCA in a prescribed manner and undergoing specific post-retirement activities.

Unrecognized TCAs

5.19 If a TCA has not been capitalized, then the asset retirement costs for that asset are expensed when they are incurred, i.e. when the liability is recorded. Note that a liability must still be recorded for the ARO even if the associated TCA is not capitalized. A TCA may not be capitalized if it does not meet the capitalization threshold. If the cost of an ARO is known when a TCA is acquired or constructed, then the asset retirement costs are included in the full cost of the TCA for the purpose of determining if the TCA meets the capitalization threshold.

Initial Measurement of ARO

Asset Retirement Activities

5.20 Asset retirement activities include all required activities related to an ARO. They may include, but are not limited to (PS 3280.08(b)):

- Decommissioning or dismantling a TCA that was acquired, constructed or developed;
- Remediation of contamination of a TCA created by its normal use;
- Post-retirement activities such as monitoring; and
- Constructing other TCAs to perform post-retirement activities.

Inclusions and Exclusions to the cost of an ARO

5.21 The cost of an ARO is the best estimate of the cost of the required asset retirement activities and includes the following:

- Costs directly attributable to the required asset retirement activities, including, but not limited to (PS 3280.34):
  - Payroll and benefits;
  - Equipment and facilities;
  - Materials;
  - Legal and other professional fees; and
  - Overhead costs.
- Costs of any required ongoing post-retirement operation, maintenance and monitoring activities; and
- The cost of TCAs that were acquired or constructed as part of the required retirement activities and that have no alternative use.

5.22 Further to PS 3280.06, the estimated cost of ARO excludes the following:

- Costs to acquire, construct or develop a TCA, as well as its routine replacement and maintenance (refer to FAM 1020-4 Tangible Capital Assets for more information);
- Costs related to the remediation of contaminated and UXO-affected sites (refer to FAM 1021-3 – Remediation Liabilities for further information);
- Costs related to the improper use of a TCA;
- Costs related to activities necessary to prepare a TCA for an alternative use;
- Costs resulting from an unexpected event, such as an unexpected contamination;
- Costs related to obligations created by waste or by-products produced by a TCA as part of its ongoing operation, including the cleanup of the waste or by-products, which are not associated with the retirement of the TCA; and
- Costs that arise solely from a plan to sell or otherwise dispose of a TCA.

Estimating an ARO

5.23 The cost of the ARO is the best estimate of the cost required to retire a TCA, based on the information available. Professional judgment is required in order to appropriately apply the accounting criteria identified in this policy to estimate the amount of the ARO, as well as to choose the appropriate measurement technique that results in the best estimate.

5.24 Examples of information used to estimate the amount of the ARO include, but are not limited to, the following:

- The requirements in existing agreements and contracts;
- The requirements in existing legislation and new legislation that has come into force;
- The technology expected to be used in asset retirement activities;
- Knowledge and experience learned from retiring similar TCAs in the past;
- Third-party quotes; and
- Reports of independent experts.

5.25 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 (PS 3280.46). When calculating the present value of an ARO, DND uses the rate on the actual zero-coupon yield curve for GoC bonds, published by the Bank of Canada, as the appropriate discount rate.

Subsequent Measurement of ARO

5.26 A liability for an ARO is generally long term in nature and the measurement of the amount is likely to change as new information becomes available over the useful life of the TCA (PS 3280.50).

5.27 Further to PS 3280.51, DND makes its best estimate of the carrying amount of the liability for each ARO using the appropriate discount rate, the amount of future retirement costs and their timing. As more experience is acquired or as additional information is obtained, those estimates need to be updated on an ongoing basis. The amount of the ARO that is reported in the departmental financial statements is the best estimate of the amount required to retire a TCA at the financial statement date, based on the information available at that date.

5.28 In periods subsequent to initial measurement, DND should recognize period-to-period changes in a liability resulting from (PS 3280.53):

- Revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate, as part of the cost of the related TCA; and
- The passage of time as an accretion expense.

5.29 Further to PS 3280.54, the revised carrying amount of the related TCA is amortized over the remaining useful life of the TCA. Refer to section “Recognition and Allocation of Asset Retirement Costs” for more information.

5.30 Further to PS 3280.56, asset retirement costs are necessary and an integral part of owning and operating the related TCA. When a liability must be recorded for an ARO, the asset retirement costs usually increase the carrying amount of the TCA, which means that the asset retirement costs are added to the total cost of the related TCA. As asset retirement costs on their initial recording are capitalized and amortized over the remaining useful life of the TCA, changes in their estimate would be accounted for similarly.

Revision to the Timing

5.31 The timing of when asset retirement costs will occur changes when the remaining estimated useful life of a TCA is revised. This change impacts the estimate of the liability for the ARO. For example, if DND owned a plane with an estimated remaining useful life of 3 years (after which the planes would be disposed of), and that estimate was revised to 8 years, then the estimate of the liability of the ARO would need to be revised to account for the change in timing.

Revision to the Amount of the Original Estimate of Undiscounted Cash Flows

5.32 DND’s TCAs are frequently subject to betterments, upgrades, renovations and other improvements. Significant changes to a TCA could affect the estimate of undiscounted cash flows, which would impact the estimate of the liability for the ARO. For example, when old parts of a TCA are replaced, the new parts might be environmentally cleaner or require fewer or less expensive asset retirement activities than the parts that they replaced, which could reduce the asset retirement costs.

5.33 When new information is available, the estimate of undiscounted cash flows must be reviewed. Any information that was not used in prior estimates of the amount of the liability of the ARO is considered to be “new information” for the purposes of this FAM. This includes information that was known and was deemed to have not been relevant or important at the time, but is now considered to be a factor due to changes in circumstances, having more experience in making similar estimates, or based on other newly-acquired information.

5.34 It is possible that the estimate to the amount of an ARO is a result of an unintentional error, such as a misinterpretation of the requirements of a contract. These errors are an incorrect application of the information available at the time of the estimate, as opposed to being a correct application of information that is later determined to be inaccurate only because new information was available. Errors must be corrected in the fiscal year where they were made, which means that a restatement of prior financial statements may be required.

Revision to the Discount Rate

5.35 The discount rate used in the present value calculation is taken from the actual zero-coupon yield curve for GoC bonds, published by the Bank of Canada. The present value of the liability does not need to be recalculated every time the discount rate changes, as the yield curves are updated frequently, but the present value calculation must be redone at least once a year for each ARO using the current discount rate.

5.36 Although unlikely, DND could adopt a new method for determining the discount rate. DND could also adopt a new method to measure the value of a liability, instead of the present value technique. In either case, the liabilities for each ARO would need to be recalculated.

Passage of Time as an Accretion Expense

5.37 As part of the present value calculation, the liability balance for an ARO increases with the passage of time. This change to the liability balance due to the passage of time is recalculated every period, and the resulting increase to the liability balance is recorded as an accretion expense. Accretion expense is recorded before measuring changes resulting from a revision to either the timing, the amount of the original estimate of undiscounted cash flow, or the discount rate.

6. Roles and Responsibilities

Deputy Minister

6.1 The Deputy Minister (DM) is responsible for:

- Implementing an effective framework for the management of ARO.

Chief Financial Officer

6.2 The Chief Financial Officer (CFO) is responsible for:

- Overseeing the implementation and monitoring of this policy.

Director General Strategic Financial Governance

6.3 The Director General Strategic Financial Governance (DG SFG) is responsible for:

- Supporting the implementation and monitoring of compliance with this policy.

Director General Financial Operations and Services

6.4 The Director General Financial Operations and Services (DG FOS) is responsible for:

- Ensuring departmental compliance with this policy is monitored; and
- Ensuring that ARO balances are appropriately reported in the departmental financial statements.

Director Financial Accounting

6.5 The Director Financial Accounting (DFA) is responsible for:

- Defining and developing departmental FM policy for ARO;
- Providing policy interpretation assistance on complex ARO FM policy matters;
- For L1 organizations that cannot record ARO in in the departmental FMS, ensuring that all TCAs belonging to those organizations that have an associated ARO are identified and valuated in the departmental FMS on a timely basis;
- Performing the present value calculations for liabilities for ARO, and recording the new balances of liabilities and the accretion expense each fiscal year;
- Reviewing the amount of the liability and the value of the TCA for ARO when there has been a change to the estimate of the useful life of the TCA, the amount of the original estimate of undiscounted cash flows or the discount rate; and
- Keeping supporting documents on file for all of the responsibilities above.

Capital Asset Reporting Monitoring and Analysis

6.6 Capital Asset Reporting Monitoring and Analysis (CARMA) is responsible for:

- Developing and maintaining the department's FM processes and procedures for ARO to ensure that they incorporate appropriate internal controls and comply with relevant legislation and this policy;
- Providing up-to-date guidance to RC Managers on legal obligations and common types of ARO that they need to be aware of and accounting for, and advising RC Managers on legal obligations through the financial chain of command when further guidance is needed;
- Ensuring the effective management of the departmental FMS for recording and reporting all financial transactions in compliance with relevant legislation and all applicable TB financial management policy instruments, with the support of the organizations responsible for the system;
- Providing guidance on procedures, policy interpretation and application for ARO;
- Ensuring that asset retirement costs allocated to the cost of a TCA are appropriately amortized; and
- Obtaining a legal opinion when there is a possibility that a promise conveyed to a third party imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel, and thus may require creating a liability for ARO;
- Keeping supporting documents on file for all of the responsibilities above.

Asset and Inventory Strategy and Analysis

6.7 Asset Inventory Strategy and Analysis (AISA) is responsible for:

- Estimating the value of asset retirement costs to calculate the value of the liability for ARO of Asset Pooled Items (API) and the amount to add to the total cost of the API, in consultation with the individuals responsible for carrying out asset retirement activities, and ensuring that these amounts are accurately recorded in the departmental FMS on a timely basis; and
- Keeping supporting documents on file for all of the responsibilities above.

Director Financial Systems and Integration

6.8 The Director Financial Systems and Integration (DFSI) is responsible for:

- Supporting the implementation and monitoring of this policy;
- Providing ongoing oversight and monitoring of the department's ARO financial and non-financial processes to ensure compliance with this policy; and
- Keeping supporting documents on file for all of the responsibilities above.

Director Financial Controls

6.9 The Director Financial Controls (DFC) is responsible for:

- Assessing the effectiveness of internal controls related to ARO and making recommendations on how to improve existing controls and create additional required internal controls, based on the results of the assessments;
- Supporting the implementation and monitoring of this policy;
- Providing ongoing oversight and monitoring of the department's internal controls over the FM of ARO; and
- Keeping supporting documents on file for all of the responsibilities above.

Director Infrastructure and Environment Comptrollership

6.10 Director Infrastructure and Environment Comptrollership (DIEC) is responsible for:

- Having up-to-date knowledge on legal obligations associated with asset retirement activities that relate to environmental standards and regulations (including international environmental agreements and commitments) and legislation relating to real property, consulting with legal advisors when required, and informing RC Managers of environmental standards that may require creating a liability for ARO; and
- Keeping supporting documents on file for all of the responsibilities above.

Department of National Defence and Canadian Forces Legal Advisor

6.11 Department of National Defence and Canadian Forces Legal Advisor (DND/CF LA) is responsible for:

- Providing legal interpretations and assistance in identifying when the GoC's own legislation, or legislation of another government, results in a legal obligation associated with asset retirement activities and a potential requirement to create a liability for ARO;
- Providing legal interpretations and assistance, when requested by RC Managers or DFA, in identifying legal obligations in agreements and contracts associated with asset retirement activities; and
- Providing a legal opinion as to whether or not a promise conveyed to a third party imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel, and thus may require creating a liability for ARO; and
- Keeping supporting documents on file for all of the responsibilities above.

Level One Comptrollers

6.12 Level One (L1) Comptrollers are responsible for:

- Ensuring all staff within their organization fully apply this policy;
- Ensuring all processes and controls within their organization related to ARO are working effectively;
- Ensuring that every ARO related to TCAs procured within their organization is accurately recorded in the departmental FMS on a timely basis;
- Ensuring that all ARO financial information is received from the RC Manager for as long as the liability must be recognized. Further ensuring that this information is complete, accurate and recorded in the departmental FMS, as required, on a timely basis;
- Providing financial direction and guidance on the department's ARO FM policy and FM procedures within their L1 organization; and
- Informing CARMA when there is a possibility that a promise conveyed to a third party imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel, and thus may require creating a liability for ARO; and
- Keeping supporting documents on file for all of the responsibilities above.

Responsibility Centre Managers

6.13 Responsibility Centre (RC) Managers are responsible for:

- Ensuring that agreements and contracts for all TCAs procured within their area of responsibility are reviewed for any legal obligations associated with the retirement of the item, and informing the L1 Comptroller when a potential ARO has been identified;
- Estimating the value of asset retirement costs to calculate the value of the liability for ARO and the amount to add to the total cost of the TCA, in consultation with the individuals responsible for carrying out asset retirement activities, and

ensuring that these amounts are accurately recorded in the departmental FMS on a timely basis; and

- Informing the appropriate comptroller when there is a possibility that a promise conveyed to a third party imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel, and thus may require creating a liability for ARO; and
- Keeping supporting documents on file for all of the responsibilities above.

7. Consequences of Non-Compliance

7.1 Under the TB Policy on Financial Management, the DM is responsible for investigating and acting when significant issues regarding policy compliance arise, and ensuring that appropriate remedial action is taken to address such issues within DND/CAF. The TB Framework for the Management of Compliance provides guidance on the considerations for determining the possible mix of consequences, which include the impact of the non-compliance, whether there has been a history of non-compliance, was there intent and other circumstances.

7.2 To support the DM's responsibility under the TB Policy on Financial Management, the ADM(Fin)/CFO or in the case of a member of the CAF, the military chain of command at the ADM(Fin)/CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with this policy. Corrective actions can include a requirement for additional training, changes to procedures or systems, removal or suspension of delegated financial authorities on a temporary or permanent basis, disciplinary action or other measures as appropriate.

8. References

DND/CAF FM Policies

FAM Chapter 1020-4, Tangible Capital Assets
FAM Chapter 1020-4-1, Real Property Tangible Capital Assets
FAM Chapter 1021-1, Liabilities including Payables at Year-End (PAYE)
FAM Chapter 1021-3, Environmental Liabilities
FAM Chapter 1021-4, Contingent Liabilities and Contingent Assets

DND/CAF FM Guides, Forms and Other Tools

PS Handbook 3280 Asset Retirement Obligations

Note:

- Please see ADM(Fin) website for tools to which the FM procedure relates.

9. Enquiries

9.1 Questions on policy interpretation and clarification are to be addressed to the appropriate Comptroller.

9.2 If the local Comptroller requires assistance, the question will be escalated through the financial chain of command.

9.3 If the L1 Comptroller needs guidance on the matter(s) raised, the L1 Comptroller may contact CARMA.

Appendix A – Definitions and Acronyms

Definitions

Accretion expense (Charge de désactualisation) is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

Discount rate (Taux d'actualisation) is the interest rate used to determine the present value of asset retirement costs. DND uses the rate on the actual zero-coupon yield curve for GoC bonds, published by the Bank of Canada, as the appropriate discount rate used in the present value calculation.

Financial management system (Système de gestion financière) refers to any combination of business processes (end-to-end, automated and manual), procedures, controls, data and software applications, all of which are categorized as either a departmental financial and materiel management system or program system or central system that produces financial information and related non-financial information. DND's departmental financial management system includes the Defence Resource Management Information System (DRMIS) and would also include any future replacement of DRMIS.

In service/into service (en service/mise en service) describes when a TCA is in a condition or state of readiness and is available for use for its intended purpose. Assets remain classified as in service until they have been permanently removed from service and are no longer available for use.

Net book value (Valeur comptable nette) of a TCA is its cost, less both accumulated amortization and the amount of any write-downs.

Present value (Valeur actualisée), in the context of ARO, is the expected future value (cost) of asset retirement activities, discounted to the present day by applying a discount rate. The present value is less than the future value because the value of a dollar generally decreases over time due to inflation, and money earns interest which makes it more valuable in the future. The present value calculation determines the value of future costs in today's dollars. The present value of a liability for an ARO increases over time.

Promissory estoppel (Irrecevabilité fondée sur une promesse) is 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*. A legal opinion must be sought when there is reason to believe that DND may have an ARO due to promissory estoppel.

Tangible capital assets (Immobilisations corporelles) are non-financial assets having physical substance that are used to produce program outputs and meet all of the following criteria:

- Are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance, testing or repair of other TCAs;
- Have a useful life greater than one year;
- Are intended to be used on a continuing basis;
- Are not intended for sale in the ordinary course of operations; and
- Control of the TCA clearly rests with DND.

TCAs include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware and software, dams, canals, and bridges. Refer to FAM Chapter 1020-4, Tangible Capital Assets for further information.

Useful life (Durée de vie utile) is the estimate of the period over which a TCA is expected to be used by the department. The useful life of a TCA other than land is finite and is normally the shortest of the physical, technological, commercial and legal life.

Acronyms

ADM – Assistant Deputy Minister

ADM(Fin) – Assistant Deputy Minister, Finance

AISA – Asset and Inventory Strategy and Analysis

API – Asset Pooled Items

ARO – Asset Retirement Obligation

CAF – Canadian Armed Forces

CARMA – Capital Asset Reporting Monitoring and Analysis

CFO – Chief Financial Officer

DFA – Director Financial Accounting

DFC – Director Financial Controls

DFP – Director Financial Policy

DFSI – Director Financial Systems and Integration

DG FOS – Director General Financial Operations and Services

DG SFG – Director General Strategic Financial Governance

DIEC – Director Infrastructure and Environment Comptrollership

DM – Deputy Minister

DND – Department of National Defence

DND/CF LA - Department of National Defence and Canadian Forces Legal Advisor

DRMIS – Defence Resource Management Information System

FAM – Financial Administration Manual

FM – Financial Management

FMS – Financial Management System

GoC – Government of Canada

L1 – Level One

NBV – Net Book Value

PS – Public Sector

RC – Responsibility Centre

TCA – Tangible Capital Asset

UXO – Unexploded Explosive Ordnance