1 Executive summary

Asset retirement or decommissioning obligations (herein, "AROs")[1] can be material financial commitments for oil and gas companies. A key uncertainty for these companies relates to the costs and timing of such obligations. Impacts of the energy transition and other economic or regulatory factors can lead to abrupt changes in the estimated timing and costs to settle these liabilities. These impacts can also affect a company's ability to continue operating, and result in a significant loss of capital. Investors and other market actors need a clear understanding of the financial exposure and uncertainties that companies with AROs face today. This includes transparency about the nature of a company's AROs, the estimated cost and timing of such obligations, and the discount and inflation rates used to measure the relevant liability.

In November 2025, the International Accounting Standards Board (IASB), the body that develops and publishes International Financial Reporting Standards (IFRS), issued guidance for disclosures about significant uncertainties.[2] Drawing from existing IFRS requirements and its guidance in the form of Illustrative Examples (IEs), we have produced a disclosure scoring system. The objective is to understand how 38 oil and gas companies in three IFRS jurisdictions (Australia, Canada and the United Kingdom (UK)), disclose information about AROs within their financial statements (including the notes thereto), and whether they align with the recent IE guidance. We have focused on AROs as information about them is material to investors today. Their measurement is driven by a limited number of assumptions and estimates, which are likely to be materially impacted by the energy transition. Our analysis benchmarks the disclosures of these 38 companies against metric information we consider to be material and so should be disclosed in IFRS financial statements by companies with financially material AROs. The results of our analysis show that companies are consistently doing less than a satisfactory job in providing this information.[3] We note that the financial reports upon which we based our analysis were published prior to the final IEs.

1.1 Key findings

- **The overall quality of ARO disclosures is poor and seems to vary depending on the company's jurisdiction.** Of the 38 companies assessed, UK companies led by providing an average of 45% of the relevant information sought by the metrics. Canadian companies were close behind at 42% while Australian companies only provided an average of 19% of the relevant information sought.
    - The low scores were surprising given existing IFRS requirements used by all three jurisdictions, the financial materiality of AROs, and their exposure to significant risks and uncertainties today. Even bp, the highest scoring company, only disclosed 73% of the information expected under existing requirements.

[1] In this report we refer to the liability or provision recorded for these obligations as the "ARO liability."

[2] *Disclosures about Uncertainties in the Financial Statements: Amendments to Illustrative Examples on IFRS 7, IFRS 18, IAS 1, IAS 8, IAS 36 and IAS 37.*

[3] Our analysis is limited to the quality of company financial statement disclosures; we do not assess or comment on any company's accounting treatment. References to financial statements herein include the notes thereto.

- **There is more observable regulatory activity over financial reporting in the UK and Canada than Australia,** suggesting a potential relationship with quality of disclosure. The IEs signal how to consider providing the material information that is already required. Focused, thematic regulatory reviews should be used to improve the extent of ARO information that companies provide.

- **A notable difference across jurisdictions was the type of discount rate used to measure ARO liabilities.** Of the 19 Canadian companies assessed, eight indicated that they used credit-risk adjusted discount rates (versus risk-free rates).[4] The impact of using these different rates when discounting estimated cash flows that extend far into the future can be significant; a higher discount rate will reduce the present value and thus the recorded liability. This difference in approach reduces comparability relative to peers within and across jurisdictions, illustrating the importance of disclosing this information.[5]

- **Despite the poor results, the ARO information sought by each metric was still provided by at least one company.**[6] This shows that the information sought is realistic and reasonable and that companies can provide it today.

In addition to jurisdictional differences, we found reporting gaps at the metric level:

- **Only 14%[7] of companies disaggregated the ARO liability to a meaningful level (e.g. by upstream, midstream or downstream segments), even though each type of asset likely has AROs.** A lack of breakdown of the recorded amount makes it difficult for investors to understand relevant risks and financial impacts for the company's AROs and whether it recorded liabilities for all relevant assets.

- **Disclosure of key assumptions and estimates used in determining ARO liabilities varied significantly.** Most companies (84%) provided some or all information about the discount rates used to calculate their ARO liabilities, yet the majority (71%) failed to disclose information about estimated costs. Three-quarters did not disclose any meaningful payment schedule for settling their AROs. Without this, investors and management are likely unable to assess whether companies can generate the requisite cash flows to pay for the AROs when they become due.

- **Assumptions and estimates used to initially record ARO liabilities were frequently revised, but the reasons were often unclear.** Changes to discount rates were often disclosed. Less frequent but just as important was information about changes in estimated costs or timing. Overall, more than half (53%) of companies provided no information about

[4] While we looked for this information, we did not score based on rate used.

[5] Canadian companies assessed used a range of 3.3% risk-free to 10% credit-risk adjusted rates. By contrast, UK and Australian companies, when indicating the rates used, only specified risk-free discount rates. Exceptions may be those that did not state the type of rate; e.g., Parkmead Group used an 8% discount rate without specifying if it was risk-free or credit-risk adjusted. Note: the IASB is working on targeted improvements to the relevant accounting requirements (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*). These will include a requirement to use a risk-free rate when measuring the liability (i.e., no adjustment for own-credit risk). See further discussions in Section 3 and Appendix B.

[6] With the exception of Metric 15 where one company, Serica Energy, scored a "Partial."

[7] Total number of companies to which we determined that this metric applied was 22.

the revisions made to the recorded liability amounts. This makes it difficult to assess the reasonableness of management judgements.

- **Only one company, bp, provided sensitivities to changes in all four key assumptions and estimates used to measure ARO liabilities.**[8] Of the 38 companies assessed, 32% provided information about sensitivities to changes in discount rates used, 21% to changes in the estimated costs required to settle the AROs, and 8% to changes in timing and/or inflation rates. These assumptions and estimates are subject to great uncertainty and management judgement. Small changes in assumptions and estimates can lead to material changes in the ARO liability. Investors need specific information about the impacts of potential changes to assess risk.[9]

- **Companies provided little to no information about off-balance sheet liabilities, suggesting a need for greater attention to the accounting for these items.**[10] Of the seven companies to which this applied, three[11] indicated the existence of off-balance sheet AROs.
    - It was unclear whether the remaining four companies[12] had recorded ARO liabilities for all relevant assets, or whether they viewed the timing to decommission some assets as "indeterminate," and so did not record related liabilities. Accordingly, the information that investors use to estimate future cash flows may be incomplete or understated. Investors (and other users) need a full picture of the company's obligations as part of assessing a company's liquidity and the impacts of risks and uncertainties on the financial statements.

1.2 Recommendations

Oil and gas companies should ensure that, in the face of existing IFRS requirements and recently issued guidance, they provide sufficient disclosure about their AROs, including quantitative information, in their financial statements. They should:

❖ Provide more detailed information about revisions to the ARO liability from the prior year, broken down by impacts from changes in discount rate(s), estimated costs, estimated timing and inflation rate(s), as relevant.

❖ Disclose estimated costs to settle AROs at the balance sheet date, a payment schedule for settling AROs, the estimated future cash flows to settle the AROs, discount rate(s) used and how the rate(s) was determined, and inflation rate(s) used.

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[8] Estimated costs, timing, inflation rates and discount rates. We discuss these further within.

[9] For example, four of the ten Australian companies (Amplitude Energy, Beach Energy, Santos and Woodside Energy Group), indicated that they assume that their offshore pipelines will be retired "in-situ." This treatment is not standard and must be approved by the relevant regulator. Decommissioning costs could be significantly higher if approval is not received. The first three companies provided sensitivities to such additional costs, evidencing the importance of such information. It was unclear if Woodside's sensitivity was limited to the impacts of such additional costs. See Australia discussions, Section 3.

[10] IAS 37 indicates that "**[i]n the extremely rare case where no reliable estimate can be made**, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86)" **[emphasis added]**.

[11] bp, Serica Energy and Shell. See discussion of this metric assessment in Carbon Tracker's: *Asset Retirement Obligations: Transparency Scorecard* (ARO Transparency Methodology).

[12] EnQuest, Peyto Exploration & Development, Suncor Energy and Tourmaline Oil.

- ❖ Provide sensitivities of the ARO liability to changes in the above key assumptions and estimates. Ideally, also explain why they chose the information used for the sensitivities.
- ❖ Describe any off-balance sheet ARO liabilities, including why they were not recorded, and the estimated costs to settle these AROs at the balance sheet date, or where possible, an estimated liability amount.

Auditors should ensure that the oil and gas companies that they audit are providing relevant, complete disclosures about their financially material AROs in audited financial statements.

Accounting and financial market regulators should include financial statement transparency about AROs in their oversight and supervisory priorities for the coming year, particularly following the IASB's recent IEs and to ensure that companies are meeting disclosure requirements. As part of this, they could target specific aspects of ARO reporting as covered by the 15 metrics. Focus is also needed on the reasonableness of off-balance sheet AROs, and financial information about these, given the IASB's expectation that these should be rare. At a jurisdictional level:

- ❖ Australian regulators should consider prioritising disclosure of ARO information in the financial statements, conducting thematic reviews like those performed by the UK FRC, and highlighting good ARO disclosures.[13]
- ❖ Canadian regulators should consider revisiting AROs as a focus area and performing thematic reviews where Canadian companies fell short.
- ❖ The UK FRC should consider a more focused thematic review on AROs, diving deeper into areas where UK companies fell short to set a bar for comprehensive reporting.[14]

Investment and stewardship teams can use this report to understand and discuss ARO disclosures with management and assess the potential governance implications of missing information. This can help determine voting priorities for annual general meetings. Proxy advisors can use this report to inform company and investor discussions and their own policies. Both can use the information to identify internal knowledge gaps that need to be addressed.

[13] In 2021, the FRC conducted a thematic review of IAS 37.
[14] Following its 2021 thematic review of IAS 37.