FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Memorandum

CLIMATE-RELATED FINANCIAL REPORTING

October 6, 2021

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **Climate-Related Implementation Guidance - Topic B**

INTRODUCTION

At the August 2021 Board meeting, members discussed the May 20, 2021, Executive Order (EO) 14030: *Climate-Related Financial Risk.* The Board also reviewed the frameworks and guidance for climate-related financial disclosures based on the recommendations by the Task Force for Climate-Related Financial Disclosures (TCFD). The Board agreed to move the Climate Impact and Risk Reporting research topic to the technical agenda as an active project.

REQUEST FOR FEEDBACK BY October 14, 2021

Please review the attached recommendations and respond to the questions by **October 14, 2021**.

For additional information, questions, or suggestions, please contact us as early as possible at gilliamr@fasab.gov with a cc to Monica Valentine at valentinem@fasab.gov.

NEXT STEPS – will be determined by Board decisions

ATTACHMENTS

#1. Staff Analysis

NEW CLIMATE-RELATED REPORTS [May also be included in Clippings]

- GCA Adaptation Update: Global Leaders on COP26: Climate Emergency Demands Policy Shift to Adaptation (9/6/21)
- IFAC Urges Stakeholders to Prepare Now for Global Sustainability Standards : *IFAC Releases Practical Framework for Deploying Global Standards at Local Level* (9/9/21)
- GAO-21-596 Federal Real Property Asset Management: Additional Direction in Government-Wide Guidance Could Enhance Natural Disaster Resilience (9/14/21)

Staff Analysis

CLIMATE-RELATED FINANCIAL REPORTING

Attachment 1

CONTEXT

In late 2017, two members from the U.S. Global Climate Research Program (USGCRP) Federal Adaption and Resilience Group (FARG) approached FASAB staff to learn what accounting standards were available to report on climate adaption and resilience. As a result, staff developed a tool box to guide agencies on what standards to use for impacts to Federal property, plant, and equipment (PP&E) by climate-related events.

From **2018 to the current** time staff has been presenting this tool box to many accounting organizations.

At the **December 2020** Board meeting**,** staff provided an education session to inform members about the fiscal exposure and climate risk to PP&E for the federal government. Staff then proposed a technical plan for a climate impact and risk reporting project. The Board requested that staff continue to research this topic and approved the Climate Impact and Risk Reporting Research Topic.

On **May 20, 2021***,* President Biden signed Executive Order (EO) 14030: *Climate-Related Financial Risk* which provided an expanded scope beyond PP&E by directing the government to develop*… a comprehensive, Government-wide strategy for:*

> *Sec. 2.(a) the measurement, assessment, mitigation, and disclosure of climate-related financial risk to Federal Government programs, assets, and liabilities in order to increase the long-term stability of Federal operations; and*
>
> *Sec. 5. (a) …approaches related to the integration of climate-related financial risk into Federal financial management and financial reporting, especially as that risk relates to Federal lending programs. The recommendations should evaluate options to enhance accounting standards for Federal financial reporting where appropriate and should identify any opportunities to further encourage market adoption of such standards.*

At the **August 25, 2021,** Board meeting, staff presented: EO 14030; the international standard setters' implementation frameworks and guidance based on the recommendations by the Task Force for Climate-Related Financial Disclosures (TCFD); and standard setters' staff guides and educational material which identified relevant climate standards.

Staff requested and the Board approved this topic as an active project and moved it to the technical agenda. The Board directing staff to

1. develop staff implementation guidance;
2. develop a climate-related financial disclosure framework; the framework should consider but not be limited to the TCFD recommendations; and
3. monitor EO 14030 strategy releases from OMB and Treasury and update the Board as necessary.

STAFF ANALYSIS AND RECOMMENDATIONS

At the August 2021 meeting, members requested that staff develop implementation guidance to identify existing standards that are available in relation to climate-related matters. According to members, the implementation guidance should not include amendments to existing standards.

This memorandum presents recommendations for 1) what information to present in the proposed implementation guidance and 2) what document options are available for implementation guidance for climate-related matters.

A. WHAT INFORMATION TO PRESENT

Staff reviewed the following standard setters' models to help determine what information to present in the implementation guidance.

The following chart identifies the format and information presented for each document.

STANDARD SETTER	DOCUMENT	FORMAT & INFORMATION
IPSASB - The International Public Sector Accounting Standards Board®	Staff Questions and Answers: Climate Change: Relevant IPSASB Guidance (June 2020)	Provided a question and answer format that addressed eight questions in relation to climate change and United Nation's Sustainable Development Goals
IFRS - International Financial Reporting Standards Foundation	Effects Of Climate Related Matters On Financial Statements (November 2020)	Provided an introduction to climate change and impact on investors The chart – cataloged ten GAAP subjects with climate-related examples.
Financial Accounting Standards Advisory Board (FASB)	FASB Staff Education Paper: *Intersection of Environmental, Social, and Governance Matters with Financial Accounting Standards*[1]	Provided and overview of ESG reporting. The Chart – catalogs seven GAAP Topics/Sub-Topics) and provides a technical explanation of GAAP with no reference to climate or ESG.

[1] The FASB Staff Education Paper, was not included in the August 2021 memo, Mr. Dacey brought it to staff's attention as an additional model to review.

IPSASB, IFRS, AND FASB issued non-authoritative staff papers to catalog what generally acceptable accounting principles (GAAP) can be used to report climate-related, sustainability, and/or Environmental, Social, and Governance (ESG) matters.

Each standard setter provided a catalog of existing standards, with no amendments, to educate stakeholders on what guidance is available. Staff also recommends a catalog of available guidance for climate-related matters, with no amendments to existing guidance.

The recommended catalog incorporates the following characteristics from each of the three staff papers.

- A question similar to the IPSASB document to prompt reporting entities to think about climate-related matters that could impact their financial statements or elements.

- A reference to the Statement of Federal Financial Accounting Standards (SFFAS) number and title similar to the GAAP reference by all three standard setters.

- A summary about each SFFAS, similar to the FASB and IFRS.

In addition, the proposed guidance encourages agencies to complete technical inquires to identify specific climate-related scenarios of concern.

Chart #1 provides the draft implementation guidance for your review.

Chart #1: Draft Implementation Guidance		
	Accounting/Reporting Question about Climate-Related Matters	**Available Guidance to Report Climate-Related Matters in Financial Statements**
1	Did a climate-related matter impact your direct loans or loan guarantees?	**SFFAS 2 - *Accounting for Direct Loans and Loan Guarantees*** The Statement provides accounting standards for federal direct loans and loan guarantees. The standards require that direct loans obligated and loan guarantees committed after September 30, 1991, be accounted for on a present value basis. The use of the present value accounting method is consistent with the intent of the Federal Credit Reform Act of 1990. The standards contain the following essential requirements: • **Direct loans** disbursed and outstanding are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance. • For **guaranteed loans** outstanding, the present value of estimated net cash outflows of the loan guarantees is recognized as a liability. Disclosure is made of the face value of guaranteed loans outstanding and the amount guaranteed. • For direct or guaranteed loans disbursed during a fiscal year, a **subsidy expense** is recognized. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows.

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		• The subsidy cost allowance for direct loans and the liability for loan guarantees are **reestimated** each year, taking into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimated is recognized as a subsidy expense (or a reduction in subsidy expense). • When direct loans or loan guarantees are **modified**, the cost of modification is recognized at an amount equal to the decrease in the present value of the direct loans or the increase in the present value of the loan guarantee liabilities measured at the time of modification. • Upon **foreclosure** of direct or guaranteed loans, the acquired property is recognized as an asset at the present value of its estimated future net cash inflows. The standards permit but do not require restating pre-credit reform direct loans and loan guarantees at present value.
2	Did a climate-related matter impact your liabilities?	**SFFAS 5 - Accounting for Liabilities of The Federal Government** This Statement provides accounting standards for liabilities of the federal government. This Statement defines "liability" as a probable future outflow or other sacrifice of resources as a result of past transactions or events. This Statement defines the recognition points for liabilities associated with different types of events and transactions. • A liability arising from reciprocal or "exchange" transactions (i.e., transactions in which each party to the transaction sacrifices value and receives

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		value in return) should be recognized when one party receives goods or services in return for a promise to provide money or other resources in the future (e.g., a federal employee performs services in exchange for compensation). • A liability arising from nonreciprocal transfers or "nonexchange" transactions (i.e., transactions in which one party to the transaction receives value without directly giving or promising value in return, such as grant and certain entitlement programs) should be recognized for any unpaid amounts due as of the reporting date. The liability includes amounts due from the federal entity to pay for benefits, goods, or services provided under the terms of the program, as of the federal entity's reporting date, whether or not such amounts have been reported to the federal entity (e.g., estimated Medicaid payments due to health providers for service that has been rendered and that will be financed by the federal entity but have not yet been reported to the federal entity). • Government-related events are nontransaction-based events that involve interaction between federal entities and their environment. The event may be beyond the control of the entity. A liability is recognized for a future outflow of resources that results from a government-related event when the event occurs if the future outflow of resources is probable and measurable or as soon thereafter as it becomes probable and measurable. Events, such as a federal entity accidentally causing damage to private property, would create a liability when the event occurred, to the extent that existing law and policy made it probable that the federal government would pay for the damage and to the extent that the amount of the payment could be estimated reliably. Government-related events also include hazardous waste spills on federal property caused

	Accounting/Reporting Question about Climate-Related Matters	Available Guidance to Report Climate-Related Matters in Financial Statements
		by federal operations or accidents and catastrophes that affect government-owned property. • Government-acknowledged events are events that are of financial consequence to the federal government because it chooses to respond to the event. A liability is recognized for a future outflow of resources that results from a government-acknowledged event when and to the extent that the federal government formally acknowledges financial responsibility for the event and a nonexchange or exchange transaction has occurred. The liability for a nonexchange transaction should be recognized for any unpaid amounts due as of the reporting date and the liability for an exchange transaction should be recognized when goods or services have been provided. The liability includes amounts due from the federal entity to pay for benefits, goods, or services provided under the terms of the program, as of the federal entity's reporting date, whether or not such amounts have been reported to the federal entity (Examples of government-acknowledged events include toxic waste damage caused by nonfederal entities and damage from natural disasters). In addition to discussing the general liability recognition principle, the Statement includes accounting standards for • Contingencies—A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Contingent future outflows or other sacrifices of resources as a result of past transactions or events may be recognized, may be disclosed, or may not be reported at all, depending on the circumstances. Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow

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		or sacrifice of resources is measurable. A contingent liability should be disclosed if any of the conditions for liability recognition are not met and there is a reasonable possibility that a loss or an additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.
3	Did a climate-related matter destroy the reporting entity's PP&E?	**SFFAS 6 - *Accounting for Property, Plant, and Equipment*** This statement provides accounting standards for Federally owned property, plant, and equipment (PP&E). PP&E is defined as follows: Tangible assets that (1) have an estimated useful life of two or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity. There are three categories of PP&E: 1. general PP&E (G-PP&E) are PP&E used to provide general government services or goods; 2. heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and 3. stewardship land (i.e., land other than that included in general PP&E). SFFAS 6 provides different accounting standards for each category.

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4	Did a climate-related event impact clean-up costs?	**SFFAS 6 - *Accounting for Property, Plant, and Equipment*** **Cleanup costs** are the costs associated with hazardous waste removal, containment, or disposal. In some instances, the Federal Government incurs liabilities for cleaning up hazardous waste at sites or facilities it operates or has operated. Generally, cleanup cannot be, or is not, done until permanent or temporary closure or shutdown of sites or facilities. These accounting standards address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence.
5	Did a climate-related event damage PP&E and the reporting entity must defer any repairs and maintenance?	**SFFAS 40 - *Deferred Maintenance and Repairs: Definitional Changes*** Deferred maintenance and repairs (DM&R) is maintenance and repair activity that was not performed when it should have been or was scheduled to be and which is put off or delayed to a future period. Although DM&R is not sufficiently measurable to support recognition or disclosure as basic information, it is nonetheless a cost and has been reported as required supplementary information (RSI). Information about DM&R has been required because the information is important to help financial statement users assess the efficiency and effectiveness of the federal government's management of property, plant, and equipment. The Board believes reliable government-wide data are needed to assist users in making assessments related to property, plant, and equipment.

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		SFFAS 42 - *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32* Deferred Maintenance and Repairs (DM&R) reporting enables the government to be accountable to citizens for the proper administration and stewardship of its assets. Specifically, DM&R reporting assists users by providing an entity's realistic estimate of DM&R amounts and the effectiveness of asset maintenance practices the entities employ in fulfilling their missions.
6	Did a climate-related event impair PP&E and the reporting entity can no longer use the PP&E for its original intended purpose?	**SFFAS 44 - *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*** This Statement provides accounting and financial reporting standards for impairment of G-PP&E remaining in use. G-PP&E is considered impaired when there is a significant and permanent decline in the service utility of G-PP&E or expected service utility for construction work in progress. A decline is permanent when management has no reasonable expectation that the lost service utility will be replaced or restored.
7	Did a climate-related matter create a new federal insurance program or impact an existing insurance program's claims?	**SFFAS 51 - *Insurance Programs*** This Statement provides accounting and financial reporting standards for insurance programs. It provides standards to ensure that insurance programs are adequately defined and report consistent information about the liabilities for

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		losses incurred and claimed as well as expected losses during remaining coverage.
8	Did a climate-related matter impact federal land?	**SFFAS 59 - *Accounting and Reporting of Government Land*** This Statement provides consistent accounting treatment and reporting for federal land. This Statement's principal requirements include: reclassifying G-PP&E land and permanent land rights as a non-capitalized asset; referencing a note on the balance sheet that discloses information about G-PP&E land and permanent land rights without an asset dollar amount; reporting estimated acres of G-PP&E land and SL using three predominant use sub-categories; conservation and preservation land; operational land; commercial use land; reporting estimated acres of land held for disposal or exchange; and, reporting land rights information, whether such rights are permanent or temporary, and amounts paid during the year to maintain such rights.
9	Did or could a climate-related risk impact the reporting entity?	**SFFAS 15 – *Management's Discussions and Analysis*** This Statement provides standards for preparing Management's Discussion and Analysis (MD&A). MD&A is an important vehicle for (1) communicating managers' insights about the reporting entity, (2) increasing the understandability and usefulness of the general purpose federal financial report (GPFFR) and (3) providing understandable and accessible information about the entity and its operations, service levels, successes, challenges, and future.

	Accounting/Reporting Question about Climate-Related Matters	Available Guidance to Report Climate-Related Matters in Financial Statements
		MD&A should also address significant events, conditions, trends and contingencies that may affect future operations.
10	Will climate-related matters impact the long-term projections for the U.S. Government?	**SFFAS 36 - *Comprehensive Long-Term Projections for the U.S. Government*** This Statement requires: • a basic financial statement in the consolidated financial report of the U.S. Government (CFR) presenting for all the activities of the federal government: the present value of projected receipts and non-interest spending under current policy without change; the relationship of these amounts to projected Gross Domestic Product (GDP), and changes in the present value of projected receipts and non-interest spending from the prior year. • Required Supplementary Information (RSI) that explains and illustrates the projected trends in: the relationship between receipts and spending; deficits or surpluses; Treasury debt held by the public as a share of GDP; possible results using alternative scenarios; and the likely impact of delaying corrective action when a fiscal gap exists. • Disclosures that explain and illustrate: the assumptions underlying the projections, factors influencing trends, and significant changes in the projections from period to period.

Reporting entities are encouraged to submit **Technical Inquiries** for specific questions or scenarios concerning climate-related matters.

BOARD QUESTIONS:

#1 – Do members agree with the format and information presented in Chart #1: Draft Implementation Guidance?

#2 – Do members want to include additional standards or remove any standards?

PLEASE USE THE SEPARATE QUESTION/ANSWER DOCUMENT TO SUBMIT ANSWERS

B. WHAT DOCUMENT OPTIONS ARE AVAILABLE FOR THE CLIMATE-RELATED IMPLEMENTATION GUIDANCE?

The proposed implementation guidance will provide reporting entities a catalog of available guidance for climate-related matters.

Staff identified three document options that could deliver a catalog of available GAAP for climate-related matters for members to consider:

1) Staff Paper;

2) Staff Implementation Guidance (SIG); or

3) Technical Release (TR)

A staff paper aligns with the other three standard setters as it provides the necessary information, but is non-authoritative. As this type of document is non-authoritative, there is no due-process or Board involvement and will not reside in the Handbook. It will be posted in the FASAB website upon approval by the executive director.

A SIG is the lowest level of GAAP—level D in the hierarchy, will not amend any existing standards, and will reside in the Handbook. A SIG has a minimal level of due process. A SIG requires a peer review, reviews by the executive director, and chairperson; and a public meeting (not necessarily to be held at a Board meeting). A SIG is signed and issued by the executive director after a 15 day Board review with a no objection majority.

A TR is a higher level of GAAP—level C hierarchy, will not amend any existing standards, and will reside in the Handbook. A TR is deliberated by the Accounting and Auditing Policy Committee (AAPC). TRs are subject to a minimum public comment period of 30 days prior to a 45 day Board review. By majority vote, FASAB can return a TR to the AAPC for further work, or with a no objection majority be finalized and published.

Chart #2 provides a side by side comparison of the three document options.

Chart #2: Side-by-Side Comparison for Climate-related Matters Document Options			
	Staff Paper	**Staff Implementation Guidance (SIG)**	**Technical Release (TR)**
GAAP Hierarchy Level	None – non-authoritative	Level D	Level C
Requested by	Staff initiation	Reporting Entity Technical Inquiry	FASAB
Developed by	Staff	Staff	Accounting and Auditing Policy Committee (AAPC) AAPC is a permanent committee authorized to improve federal financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues.
Reviewed by	Executive Director	Peer Review Executive Director & Chairperson	AAPC
Guidance	Information only	Provided for applying existing Statements and Interpretations	Provided for applying existing Statements and Interpretations

<table>
<tr><th colspan="4">Chart #2: Side-by-Side Comparison for Climate-related Matters Document Options</th></tr>
<tr><th></th><th>Staff Paper</th><th>Staff Implementation Guidance (SIG)</th><th>Technical Release (TR)</th></tr>
<tr><td>Authorized to promulgate new accounting Standards?</td><td>No</td><td>No</td><td>No</td></tr>
<tr><td rowspan="2">Due Process / Steps</td><td rowspan="2">1. No due process
2. Internal review by executive director
3. Published to website</td><td>1. Reviews:
a. Staff peer
b. Executive Director
c. Chairperson
2. Public meeting to discuss the proposal
3. 15* day public comment period
4. Final SIG is prepared
5. 15 day Board review
6. SIG is signed by the executive director and issued if a majority of the Board does not object.</td><td>1. AAPC deliberation
2. 30* day public comment period
3. AAPC submits proposal to the Board for a 45 day review:
a. Proposed TR returned to AAPC if majority of members or a member representing Treasury, OMB or GAO objects to the proposal; or
b. TR becomes final if either a majority of members or a member representing Treasury, OMB or GAO does not object.</td></tr>
<tr><td colspan="2">NOTE: *the time noted is the minimal days for each public comment period.</td></tr>
</table>

BOARD QUESTION:

#3 - Which document do members prefer:

Staff Paper ________

Staff Implementation Guidance (SIG) ________

Technical Release (TR) ________

PLEASE USE THE SEPARATE QUESTION/ANSWER DOCUMENT TO SUBMIT ANSWERS