

Memorandum
CLIMATE STAFF PAPER
April 12, 2022

To: Members of the Board
From: Robin M. Gilliam, Assistant Director
Thru: Monica R. Valentine, Executive Director

Subject: **Climate Staff Paper** (Topic A)

INTRODUCTION

Staff presents the climate staff paper (Attachment 1) for a final review in preparation for posting on the FASAB website. This document is not authoritative and catalogs existing Statement of Federal Financial Accounting Standards (SFFAS) that may be relevant to account for or report on the effects of climate-related events that have occurred and the potential effects of climate-related financial risks that may occur in the future.

Staff presents a tracked changes document (Attachment 2) noting member edits and comments received on the version sent to members on February 7, 2022. Staff reviewed all member editorial recommendations and made the following updates: 1) changed the staff paper and table titles from “GAAP” to “SFFAS” to reflect that this catalog focuses only on SFFAS and not all GAAP guidance; and 2) consolidated member comments into updated content throughout the document.

NEXT STEPS

Staff will post the document on the FASAB website. Staff will then begin work on the next phase of the Climate-Related Financial Reporting project to develop a framework for climate disclosures in federal financial reporting.

ATTACHMENTS

1. *Statements of Federal Financial Accounting Standards That May be Relevant to Climate-Related Financial Reporting Staff Paper- clean version*
2. *Statements of Federal Financial Accounting Standards That May be Relevant to Climate-Related Financial Reporting Staff Paper - track changes*

**Statements of Federal Financial Accounting Standards
That May be Relevant to Climate-Related Financial Reporting
Staff Paper
April 12, 2022**

Disclaimer

This staff paper is not authoritative. Therefore, it does not reflect authoritative views of the Board. Official positions of the Board are determined only after extensive due process and deliberations.

Introduction

Federal financial statements are a vehicle by which federal entities and the federal government as a whole account for and explain to users the financial position and condition of the federal government. There is growing recognition that climate-related events and climate-related financial risks may affect the financial position and condition of the federal government. In those instances when climate-related events or climate-related financial risks affect the financial statements and any related information, preparers and users should be aware of the Statements of Federal Financial Accounting Standards (SFFASs) that may be relevant.

This FASAB staff paper catalogs existing SFFASs that may be relevant to account for or report on the effects of climate-related events that have occurred and the potential effects of climate-related financial risks that may occur in the future. This staff paper is not an authoritative pronouncement and does not change or modify current FASAB guidance.

Technical Inquiries

This staff paper does not catalog potential climate-related scenarios that agencies may encounter. Reporting entities can submit a [technical inquiry](#) to FASAB staff for questions about FASAB guidance.

Terms

The following terms are referenced only for the purposes of this non-authoritative staff paper:

Climate-related events include extreme weather events that have occurred, such as but not limited to hurricanes, tornadoes, droughts, wildfires, and floods. Climate-related events may result from prevailing conditions, such as rising sea levels or change in temperature.

Climate-related financial risk refers to the potential of a climate-related event happening in the future that could have a material effect on the financial statements.

Relevant Statements of Federal Financial Accounting Standards

Current SFFASs do not explicitly discuss “climate change.” However, current SFFASs may be relevant to account for the effects of climate-related events that have occurred on assets, liabilities, or other transactions that may affect either assets or liabilities.¹

Current SFFASs may be relevant to report on the potential effects of climate-related financial risks that may occur in the future in required supplementary information (RSI).

Assets

An asset is a resource that embodies economic benefits or services that the federal government controls.² This topic addresses inventory and property, plant, and equipment (PP&E).

SFFASs That May Be Relevant to Account for the Effects of Climate-Related Events on Assets	
SFFAS 3, <i>Accounting for Inventory and Related Property</i>	Inventory and Related Property SFFAS 3 provides accounting standards that apply to the valuation of inventory and related property held by federal government agencies. Paragraphs 29-34, 47-49, 54, and 97 of SFFAS 3 provide guidance for valuing inventory and related property. A climate-related event may affect the valuation of inventory or related property.

¹ SFFASs for revenues and expenses are not referenced in this document. As stated in the *Focus on Assets and Liabilities* section of SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, “The measurement concepts in this Statement focus on assets and liabilities because remeasuring elements after their initial recording is directly applicable **only to assets and liabilities**, insofar as the other elements are derived from them. ... The measurement and recognition of changes in assets and liabilities affect reported revenues and expenses.” [emphasis added] Footnote 3 of SFFAC 7 also states, “The balance sheet element of net position is not separately addressed because it is defined as the difference between total assets and total liabilities.”

² Appendix E, *Consolidated Glossary*, of the *FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*.

**SFFASs That May Be Relevant to Account for
the Effects of Climate-Related Events on Assets**

SFFAS 6, *Accounting for Property, Plant, and Equipment*

SFFAS 29, *Heritage Assets and Stewardship Land*

SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*

Property, Plant and Equipment

SFFAS 6, 29, 44, and 42 provide accounting standards that apply to federally owned property, plant, and equipment (PP&E).

Destroyed PP&E

Paragraphs 38-39 of SFFAS 6 provide guidance on how to dispose of PP&E and recognize a gain or loss if the condition of an asset no longer provides service to the operations of the entity.

A climate-related event may affect the condition of an asset, such that it no longer provides service to the operations of the entity.

Impaired PP&E

Paragraphs 8-26 of SFFAS 44 provide guidance on how to determine if PP&E incurred a permanent decline in its service utility and how to measure and recognize related costs.

A climate-related event may cause a permanent decline in service utility.

Deferred Maintenance and Repairs

Paragraphs 7-16 of SFFAS 42 provide guidance on how to account for deferred maintenance and repairs if the PP&E is not in an acceptable condition.

A climate-related event may affect the condition of an asset and result in deferred maintenance and repairs.

Liabilities

A liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events.³ This topic addresses liabilities, environmental cleanup costs, and insurance.

SFFASs That May Be Relevant to Account for the Effects of Climate-Related Events on Liabilities	
<i>SFFAS 5, Accounting for Liabilities of the Federal Government</i>	Liabilities and Contingencies <p>SFFAS 5 provides accounting standards that apply to liabilities and contingencies.</p> <p>Paragraphs 19-34 of SFFAS 5 provide guidance for recognition of a liability.</p> <p>Paragraphs 35-42 of SFFAS 5 provide guidance for recognition, measurement, and disclosure of contingencies.</p> <p>A climate-related event may result in new liabilities or changes in existing liabilities, such as those related to disaster relief, other benefits, repairs, and maintenance. They may also result in changes to the likelihood or measurability of contingencies.</p>
<i>SFFAS 6, Accounting for Property, Plant, and Equipment</i>	Environmental Cleanup Costs <p>SFFAS 6 provides accounting standards that apply to liabilities for environmental cleanup resulting from an accident, <u>natural disaster</u>, or other one-time occurrence.</p> <p>Paragraphs 94-111 of SFFAS 6 provide guidance for expenses, recognition, measurement, and disclosure requirements.</p> <p>A climate-related event may result in environmental cleanup liabilities for new or existing sites.</p>

³ Appendix E, *Consolidated Glossary*, of the *FASAB Handbook of Federal Accounting Standards and Other Pronouncements*, as Amended.

SFFASs That May Be Relevant to Account for the Effects of Climate-Related Events on Liabilities	
SFFAS 51, Insurance Programs	<p>Insurance</p> <p>SFFAS 51 provides accounting standards that apply to insurance programs and associated liabilities for losses incurred and claimed, as well as expected losses during remaining coverage.</p> <p>Paragraphs 22-69 of SFFAS 51 provide guidance for estimating the liability, recognition, measurement, and disclosure requirements.</p> <p>A climate-related event may result in additional insurance claims.</p>

Other Transactions

Other transactions may affect either an asset or liability, such as public-private partnerships (P3s) or leases.

SFFASs That May Be Relevant to Account for the Effects of Climate-Related Events on Other Transactions	
SFFAS 49, Public-Private Partnerships: Disclosure Requirements	<p>Public-Private Partnerships (P3s)</p> <p>SFFAS 49 provides accounting standards that apply to public-private partnerships (P3s).</p> <p>Paragraphs 20-25 of SFFAS 49 provide disclosure requirements for P3s.</p> <p>A climate-related event may affect P3 disclosures.</p>
SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment (effective FY 2024)	<p>Leases</p> <p>SFFAS 54 provides accounting standards that apply to federal lease activities whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period as specified in the contract or agreement in exchange for consideration.</p> <p>Paragraphs 14-93 of SFFAS 54 provide requirements for accounting and reporting for both lessees and lessors beginning in FY 24.</p> <p>A climate-related event may affect recorded lease assets and liabilities, such as through impairment of leased assets.</p>

Required Supplementary Information

RSI is information that SFFASs requires to accompany information in the financial statements and note disclosures. This topic addresses RSI as it relates to management's discussion and analysis (MD&A) and federal oil and gas resources.

SFFASs That May Be Relevant to Report on the Effects of Climate-Related Events or Climate-Related Financial Risks in RSI	
<i>SFFAS 15, Management's Discussions and Analysis</i>	MD&A Paragraphs 1-8 in SFFAS 15 provide guidance on what information to discuss and analyze in MD&A. Significant financial effects of climate-related events and climate-related financial risks may require disclosure/reporting in MD&A.
<i>SFFAS 38, Accounting for Federal Oil and Gas Resources</i>	Federal Oil and Gas Resources Paragraphs 13-29 of SFFAS 38 provide accounting and reporting guidance for federal oil and gas resources. A climate-related event may affect royalties from federal oil and gas resources.

Reporting entities should submit [technical inquiries](#) when additional information is necessary.

~~FINAL DRAFT~~ Statements of Federal Financial
FASAB Staff Paper
Generally Accepted Accounting Standards Principles
That May be Relevant Applicable to Climate-Related Financial
Reporting
Staff Paper
March 30, 2022

FINAL DRAFT

Disclaimer

This ~~paper is a~~ staff paper is and not authoritative. Therefore, it does not ~~intended to~~ reflect authoritative views of the Board. Official positions of the Board are determined only after extensive due process and deliberations.

Introduction

Federal financial statements are ~~at the~~ vehicle by which federal entities and the federal government as a whole ~~to account for and the use of taxpayer resources and to~~ explain to users the financial position and condition of the federal government, ~~and component reporting entities.~~ There is growing recognition that climate-related events and climate-related financial risks may ~~affect the have an effect on federal~~ position and condition of the federal government statements. In those instances when climate -related events or climate -related financial risks ~~affect effect~~ the financial statements and any related information, preparers and users should be aware of the Statements of Federal Financial Accounting Standards (SFFASs) ~~those generally accepted accounting principles (GAAP)~~ that may be relevant,

~~applicable.~~ This FASAB staff paper catalogs ~~is intended to provide a catalog of~~ existing SFFASs that may be relevant to account for or report on the effects of ~~GAAP guidance to highlight potential federal financial reporting impacts from climate-related events that have occurred and the potential effects of and climate-related financial risks that may occur in the future. This-~~

~~This FASAB~~ staff paper is not an authoritative pronouncement and does not change or modify current FASAB guidance ~~GAAP~~.

Technical Inquiries

This staff paper does not ~~catalog~~ intended to address every potential climate-related ~~scenario, including those currently addressed in current GAAP guidance, as well as those scenarios that agencies may encounter not currently addressed in current GAAP guidance.~~ Reporting entities can submit a technical inquiry to FASAB staff for ~~GAAP-related~~ questions about FASAB guidance. -

Terms

The following terms are referenced only For the purposes of this non-authoritative staff paper, ~~the following key terms are used:~~

- **Climate-related events** include extreme weather ~~and temperature~~ events that have occurred, such as, but not limited to hurricanes, tornadoes, droughts, wildfires, and floods. Climate-related events may result from prevailing conditions, such as rising sea levels or change in temperature.
- **Climate-related financial risk** refers to the potential of a climate-related event happening in the future that could have a material effect on the financial statements.

Relevant Statements of Federal Financial Accounting Standards

~~Current SFFASs~~~~While current standards~~ do not explicitly discuss “climate change.” However, current SFFASs may, ~~guidance can appropriately~~ be relevant~~applied~~ to account for the effects of climate-related events that have occurred on assets, liabilities, ~~or~~ and other transactions that may affect either assets or liabilities.¹

~~Current SFFASs may be relevant to report on.~~ While the potential effects of climate-related financial risks that may occur in the future~~can be reported~~ in required supplementary information (RSI).

Assets

An asset is a resource that embodies economic benefits or services that the federal government controls.² This topic addresses ~~the following assets:~~ inventory and property, plant, and equipment (PP&E).

¹ SFFASs for revenues and expenses are not referenced in this document. As stated in the *Focus on Assets and Liabilities* section of SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, “The measurement concepts in this Statement focus on assets and liabilities because remeasuring elements after their initial recording is directly applicable **only to assets and liabilities**, insofar as the other elements are derived from them. ... The measurement and recognition of changes in assets and liabilities affect reported revenues and expenses.” [emphasis added] Footnote 3 of SFFAC 7 also states, “The balance sheet element of net position is not separately addressed because it is defined as the difference between total assets and total liabilities.”

² Appendix E, *Consolidated Glossary*, of the *FASAB Handbook* Statement of Federal Financial Accounting ~~Standards Concepts~~ (SFFAC) 5, *Definitions of Elements and Other Pronouncements, as Amended* ~~Basic Recognition Criteria for Accrual-Basis Financial Statements~~, par. 18.

SFFASs What GAAP is Available for Assets That May Be Relevant to Account for the Effects of Have Been Affected by Climate-Related Events on Assets

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SFFAS 3, Accounting for Inventory and Related Property

Inventory and Related Property

SFFAS 3 provides accounting standards that apply to the valuation of inventory and related property held by federal government agencies.

Paragraphs 29~~—~~34~~;~~ 47~~—~~49~~;~~ 54, and 97 of SFFAS 3 provide guidance for valuing inventory and related property.

A climate-related event~~Applying this guidance~~ may affect~~be necessary to determine if~~ the valuation of inventory or related property ~~is necessary because of a climate-related event~~.

SFFAS 6~~—~~ Accounting for Property, Plant, and Equipment

Property, Plant and Equipment

SFFAS 6, 29, 44, and~~&~~ 42 provide accounting standards that apply to federally owned property, plant, and equipment (PP&E).

SFFAS 29~~—~~ Heritage Assets and Stewardship Land

Destroyed PP&E

~~SFFAS 6~~, paragraphs 38~~—~~39 of SFFAS 6 provide guidance ~~on~~for how to dispose of PP&E and recognize a gain or loss if the condition of an asset no longer provides service to the operations of the entity.

A climate-related event~~Applying this guidance~~ may affect~~be necessary to determine if disposal of PP&E is necessary if~~ the condition of an asset, such that it no longer provides service to the operations of the entity ~~because of a climate-related event~~.

SFFAS 44~~—~~ Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use

Impaired PP&E

~~SFFAS 44~~, paragraphs 8~~—~~26 of SFFAS 44 provide guidance on how to determine if PP&E incurred a permanent decline in its service utility and how to measure and recognize related costs.

A climate-related event~~Applying this guidance~~ may cause~~be necessary to determine if PP&E suffered~~ permanent decline in service utility ~~because of a climate-related event~~.

SFFAS 42~~—~~ Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32

Deferred Maintenance and Repairs

~~SFFAS 42~~ paragraphs 7~~—~~16 of SFFAS 42 provide guidance ~~on~~for how to account for deferred maintenance and repairs if the PP&E is not in an acceptable condition.

SFFASs What GAAP is Available for Assets That May Be Relevant to Account for the Effects of _____ Have Been Affected by Climate-Related Events on Assets

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A climate-related event Applying this guidance may affect be necessary if the condition of an asset and result in deferred maintenance and needs repairs, because of a climate-related event.

Liabilities

A liability is a probable future outflow ~~present obligation of the federal government to provide assets or other sacrifice of resources as~~ services to another entity at a result of past transactions ~~determinable date, when a specified event occurs, or events on demand~~³. This topic addresses liabilities, environmental cleanup costs, and insurance.

SFFASs What GAAP is Available for Liabilities That May Be Relevant to Account for the Effects of _____ Have Been Affected by Climate-Related Events on Liabilities?

SFFAS 5—
Accounting for
Liabilities of The
Federal Government

Liabilities and Contingencies

SFFAS 5 provides accounting standards that apply to liabilities and contingencies.

~~SFFAS 5~~ paragraphs 19—34 of SFFAS 5 provide guidance for recognition of a liability. ~~Applying this guidance may be necessary if a new liability is needed or the valuation of an existing liability has been affected by impacts of a climate-related event.~~

~~SFFAS 5~~ paragraphs 35—42 of SFFAS 5 provide guidance for recognition, measurement, and disclosure of contingencies.

A climate-related event Applying this guidance may result in be necessary if a new liabilities contingency is needed or changes in the valuation of an existing liabilities, such as those contingency has been affected by impacts of a climate-related to disaster relief, other benefits, repairs, and maintenance. They may also result in changes to the likelihood or measurability of contingencies. ~~event.~~

³ Appendix E, Consolidated Glossary, of the FASAB Handbook of Federal Accounting Standards and Other Pronouncements, as Amended, SFFAC 5, paragraph 39

<u>SFFASs What GAAP is Available for Liabilities That May Be Relevant to Account for the Effects of _____ Have Been Affected by Climate-Related Events on Liabilities?</u>	
SFFAS 6 — <i>Accounting for Property, Plant, and Equipment</i>	<p style="text-align: center;">Environmental Cleanup Costs</p> <p>SFFAS 6 provides accounting standards that apply to liabilities for environmental cleanup resulting from an accident, <u>natural disaster</u>, or other one-time occurrence.</p> <p>SFFAS 6 paragraphs 94—111 <u>of SFFAS 6</u> provide guidance for expenses, recognition, measurement, and disclosure requirements.</p> <p>A climate-related event Applying this guidance may <u>result in be necessary if a new</u> environmental cleanup liabilities <u>site is needed or the liability for new or an existing sites. site has been affected by impacts resulting from a climate-related event.</u></p>
SFFAS 51 — <i>Insurance Programs</i>	<p style="text-align: center;">Insurance</p> <p>SFFAS 51 provides accounting standards that apply to insurance programs and associated liabilities for losses incurred and claimed, as well as expected losses during remaining coverage.</p> <p>Paragraphs 22—69 <u>of SFFAS 51</u> provide guidance for estimating the liability, recognition, measurement, and disclosure requirements.</p> <p>Applying this guidance may be necessary if new insurance liabilities are needed after impacts resulting from a climate-related event <u>may result in additional insurance claims.</u></p>

Other Transactions

Other transactions may affect either an asset or liability, such as public-private partnerships (P3s) or leases.

SFFASs What GAAP is Available for Other Transactions That May Be Relevant to Account for the Effects of Have Been Affected by Climate-Related Events on Other Transactions

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SFFAS 49, Public-Private Partnerships: Disclosure Requirements

Public-Private Partnerships (P3s)

SFFAS 49 provides accounting standards that apply to public-private partnerships (P3s).

~~SFFAS 49~~, paragraphs 20–25 of SFFAS 49 provide disclosure requirements for P3s. ~~Applying this guidance may be necessary to determine if required disclosures should be updated to reflect any effects on P3s associated with a climate-related event~~ may affect P3 disclosures.

SFFAS 54, Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment (effective FY 2024)

Leases

SFFAS 54 provides accounting standards that apply to federal lease activities whereby one entity (lessor) conveys the right to control the use of PP&E (the underlying asset) to another entity (lessee) for a period as specified in the contract or agreement in exchange for consideration.

Paragraphs 14–93 of SFFAS 54 provide requirements for accounting and reporting for both lessees and lessors beginning in FY 24.

~~Applying this guidance may be necessary if a related liability or asset has been affected by a climate-related event~~ may affect recorded lease assets and liabilities, such as through impairment of leased assets.

Required Supplementary ~~Supplemental~~ Information

~~Required Supplementary Information (RSI)~~ is information that SFFASs GAAP requires to accompany information in the financial statements and note disclosures. This topic addresses RSI as it relates to Management's ~~discussion~~ Discussions and Analysis (MD&A), and federal oil and gas resources.

SFFASs That May Be Relevant to Report on the Effects of

~~What Guidance is Available for Reporting~~ Climate-Related Events or Climate-Related Financial Risks ~~Risk~~ in RSI?

SFFAS 15, Management's Discussions and Analysis (MD&A)

MD&A

~~SFFAS 15~~ paragraphs 1-8 in SFFAS 15 provide guidance ~~on~~ for what information to discuss and analyze in MD&A.

<u>SFFASs That May Be Relevant to Report on the Effects of</u> <u>What Guidance is Available for Reporting Climate-Related Events or Climate-Related</u> <u>Financial RisksRisk in RSI?</u>	
	<p>Significant financialApplying this guidance may be necessary to determine if information in MD&A needs to address the effects of a climate-related <u>event</u>event; and/or if forward-looking information should reflect any potential impacts from climate-related financial risks may require disclosure/reporting in MD&A.</p>
<i>SFFAS 38, Accounting for Federal Oil and Gas Resources</i>	<p>Federal Oil and Gas Resources</p> <p>SFFAS 38 paragraphs 13—29 of <u>SFFAS 38</u> provide accounting and reporting guidance for federal oil and gas resources.</p> <p>Applying this guidance may be necessary to determine if information in RSI should be updated to reflect any effects by a climate-related event <u>may affect royalties from</u>en federal oil and gas resources.</p>

Reporting entities should submit technical inquires when additional information is necessary.