

Memorandum
CLIMATE-RELATED
FINANCIAL DISCLOSURE FRAMEWORK

June 9, 2022

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

Subject: **Phase II: Climate-Related Financial Disclosure Framework** (Topic D)

INTRODUCTION

Staff presents phase II of the climate-related financial reporting (climate) project, climate-related financial disclosure framework. Staff plans to review the scope of the project and draft project plan with the Board.

REQUEST FOR FEEDBACK BY JUNE 17, 2022

Staff requests responses to the ensuing questions by **June 17, 2022**.

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

Staff will assemble a climate task force to assist staff in developing a climate-related financial disclosure framework for federal financial reporting to present to the Board.

ATTACHMENTS

1. Staff Analysis
2. Proposed Project Plan
3. Member Comment Form

Context

In August 2021, the Board approved the climate-related financial reporting (climate) project and added it to the technical agenda with a two-phase approach. The first phase was to provide a non-authoritative document to catalog existing Statements of Federal Financial Standards (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. During the second phase, staff plans to develop a climate-related financial disclosure framework to determine if new Generally Accepted Accounting Principles (GAAP), amendments to existing GAAP, and/or implementation guidance is needed to address climate-related financial reporting.

The Board completed phase I on May 17, 2022, when the climate staff paper titled [*Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting*](#), posted to the FASAB website. As noted above, phase II begins with a review of the project scope, staff analysis and recommendation, and proposed project plan (Attachment 2) to develop a climate-related financial disclosure framework (framework).

I. Scope

During the development of the climate staff paper, some members asked why the Board was only focusing on climate and not the broader topic of environment, social, and governance (ESG). Staff explained that the scope of the climate staff paper was based on the Board's decision to add a climate-related financial reporting project and not an ESG project to the technical agenda¹.

The Board's August 2021 decision to add a climate project to the technical agenda was based on a growing recognition that climate-related events and climate-related risks may affect the financial position and condition of the federal government. This was evidenced by sections 2(a) and 5(a) of [*Executive Order \(EO\) 14030, Climate-Related Financial Risk*](#) that directs the government to develop a comprehensive, Government-wide strategy as noted below:

- 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

¹ Staff prepared an ESG session to educate the Board about climate in relation to ESG; climate falls within the environmental piece of ESG. Staff presented this education session at the [December 2021 meeting](#).

- 5(a) ...on 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...

Since the Board's focus for the climate project thus far has been on climate-related financial reporting, staff plans to carry this focus into the second phase of the project. Therefore, the climate-related financial disclosure framework scope does not include ESG.

II. STAFF ANALYSIS and RECOMMENDATION

Staff recommends that FASAB align with the [Task Force for Climate-Related Financial Disclosures](#)² (TCFD) recommendations to develop a climate-related financial disclosure framework for federal financial reports. Staff's recommendation is based on TCFD's globally accepted risk and opportunity categories, consistent framework for disclosures worldwide, and implementation guidance for many sectors of business activities.

The following questions allow staff to highlight important aspects of the TCFD model and why the Board should align with TCFD to develop a climate-related financial disclosure framework for federal financial reports.

A. What is the TCFD?

The Financial Stability Board (FSB) created TCFD in response to a 2015 request from the G20 Finance Ministers and Central Bank Governors to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change.

² Information on the TCFD and the framework is provided courtesy of TCFD at <https://www.fsb-tcfd.org/>, <https://www.fsb-tcfd.org/recommendations/>; the TCFD Knowledge Hub - TCFD Knowledge Hub (tcfdhub.org); Workshops in a Box | Task Force on Climate-Related Financial Disclosures (fsb-tcfd.org)

Introduction

The Task Force on Climate-related Financial Disclosures was created in late 2015 to help identify information needed by the financial sector to appropriately assess and price climate-related risks

The G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues.

In response, the FSB established the Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations for more effective climate-related disclosures.

"The FSB is asking the Task Force on Climate-related Financial Disclosures to make recommendations for consistent company disclosures that will *help financial market participants understand their climate-related risks*. Access to high quality financial information will allow market participants and policymakers to understand and better manage those risks, which are likely to grow with time."

- Mark Carney (FSB Chair), Speaking at the COP21 Paris Climate Change Conference, December 2015 (emphasis added)

Industry Led and Geographically Diverse Task Force

The Task Force's 32 international members, led by Chair Michael Bloomberg, include providers of capital, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies.



Experts from
the Financial
Sector

Experts from
Non-Financial
Sectors

Other
Experts

B. Are there TCFD climate risk and opportunity categories that FASAB can align with?

Yes. TCFD has identified the following risk and opportunity categories (1) transition risks and opportunities, and (2) physical risks.

Transition Risks

Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations.³

Climate-Related [transition] Opportunities

Efforts to mitigate and adapt to climate change also produce opportunities for organizations, for example, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply

³ <https://www.fsb-tcfd.org/recommendations/> page 5

chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organization operates.⁴

Physical Risks

Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Organizations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organizations' premises, operations, supply chain, transport needs, and employee safety.⁵

These climate risk and opportunity categories are recognized globally and by the U.S. Government. For example, the White House published [A Roadmap to Build a Climate-Resilient Economy \(Roadmap\)](#), on October 14, 2021—guidance for EO 14020—which references these risk and opportunity categories⁶ as follows:

Physical and Transition Risk: The intensifying impacts of climate change - such as increased extreme weather - present *physical risks* to assets, publicly-traded securities, private investments, and companies. In addition, the global shift away from carbon-intensive economies presents *transition risk and opportunity* to companies, communities, and workers. While it will be important to work with communities that may struggle to make this transition, this global shift presents generational opportunities to enhance U.S. competitiveness and economic growth, while also creating well-paying job opportunities for workers. The failure to appropriately and adequately account for, disclose and measure these physical and transition risks threatens the competitiveness of U.S. companies and markets, the life savings and pensions of U.S. workers and families, and the ability of U.S. financial institutions to serve communities. In this effort, the Federal Government will lead by example by appropriately addressing climate-related financial risk in Federal decision-making, prioritizing Federal investments in decarbonization, and conducting prudent fiscal management.

C. How could the TCFD recommendations help FASAB develop a disclosure framework for federal entities to discuss the financial impacts of climate risks and opportunities in federal financial reports?

⁴ <https://www.fsb-tcfd.org/recommendations/> page 6

⁵ <https://www.fsb-tcfd.org/recommendations/> page 6

⁶ [A Roadmap to Build a Climate-Resilient Economy](#), Page 6

TCFD recommendations illustrate how transition risks and opportunities, and physical risks, may financially impact major financial statement line item categories. By aligning with the TCFD recommendations, FASAB could model TCFD's mapping of transition risks and opportunities, and physical risks, to the four major financial statement line item categories: revenues, expenditures, assets and liabilities, and capital and financing. TCFD further explains these major categories of financial impact in the below figure 2.⁷

Figure 2

Major Categories of Financial Impact

Income Statement	Balance Sheet
<p>Revenues. Transition and physical risks may affect demand for products and services. Organizations should consider the potential impact on revenues and identify potential opportunities for enhancing or developing new revenues. In particular, given the emergence and likely growth of carbon pricing as a mechanism to regulate emissions, it is important for affected industries to consider the potential impacts of such pricing on business revenues.</p> <p>Expenditures. An organization's response to climate-related risks and opportunities may depend, in part, on the organization's cost structure. Lower-cost suppliers may be more resilient to changes in cost resulting from climate-related issues and more flexible in their ability to address such issues. By providing an indication of their cost structure and flexibility to adapt, organizations can better inform investors about their investment potential.</p> <p>It is also helpful for investors to understand capital expenditure plans and the level of debt or equity needed to fund these plans. The resilience of such plans should be considered bearing in mind organizations' flexibility to shift capital and the willingness of capital markets to fund organizations exposed to significant levels of climate-related risks. Transparency of these plans may provide greater access to capital markets or improved financing terms.</p>	<p>Assets and Liabilities. Supply and demand changes from changes in policies, technology, and market dynamics related to climate change could affect the valuation of organizations' assets and liabilities. Use of long-lived assets and, where relevant, reserves may be particularly affected by climate-related issues. It is important for organizations to provide an indication of the potential climate-related impact on their assets and liabilities, particularly long-lived assets. This should focus on existing and committed future activities and decisions requiring new investment, restructuring, write-downs, or impairment.</p> <p>Capital and Financing. Climate-related risks and opportunities may change the profile of an organization's debt and equity structure, either by increasing debt levels to compensate for reduced operating cash flows or for new capital expenditures or R&D. It may also affect the ability to raise new debt or refinance existing debt, or reduce the tenor of borrowing available to the organization. There could also be changes to capital and reserves from operating losses, asset write-downs, or the need to raise new equity to meet investment.</p>

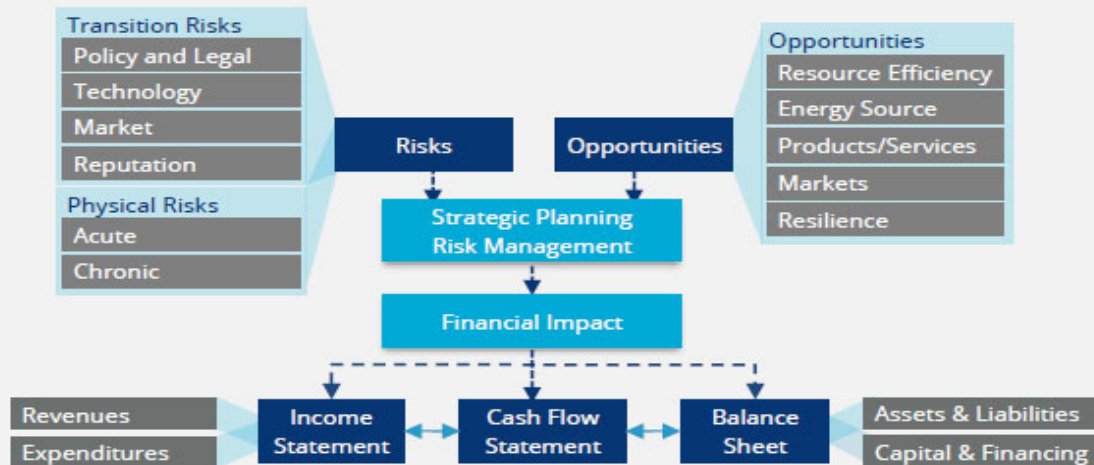
The following TCFD chart in Figure 1⁸ also provides a helpful visual to understand how transition risks and opportunities, and physical risk, flow through an organization and into financial statements.

⁷ <https://www.fsb-tcfid.org/recommendations/> page 9

⁸ <https://www.fsb-tcfid.org/recommendations/> page 8

Figure 1

Climate-Related Risks, Opportunities, and Financial Impact



The below chart demonstrates how FASAB could map federal financial statements and line item categories to the TCFD model.

TCFD	Federal Financial Statements
4 Major Financial Statement Line Item Categories	
Revenue	Earned Revenue
Expenditures	Gross Costs
Assets and Liabilities	Assets and Liabilities
Capital & Financing	Net Position
Financial Statements	
Income Statement	Statement of Net Costs
Cash Flow Statement	Statement of Changes in Net Position
Balance Sheet	Balance Sheet

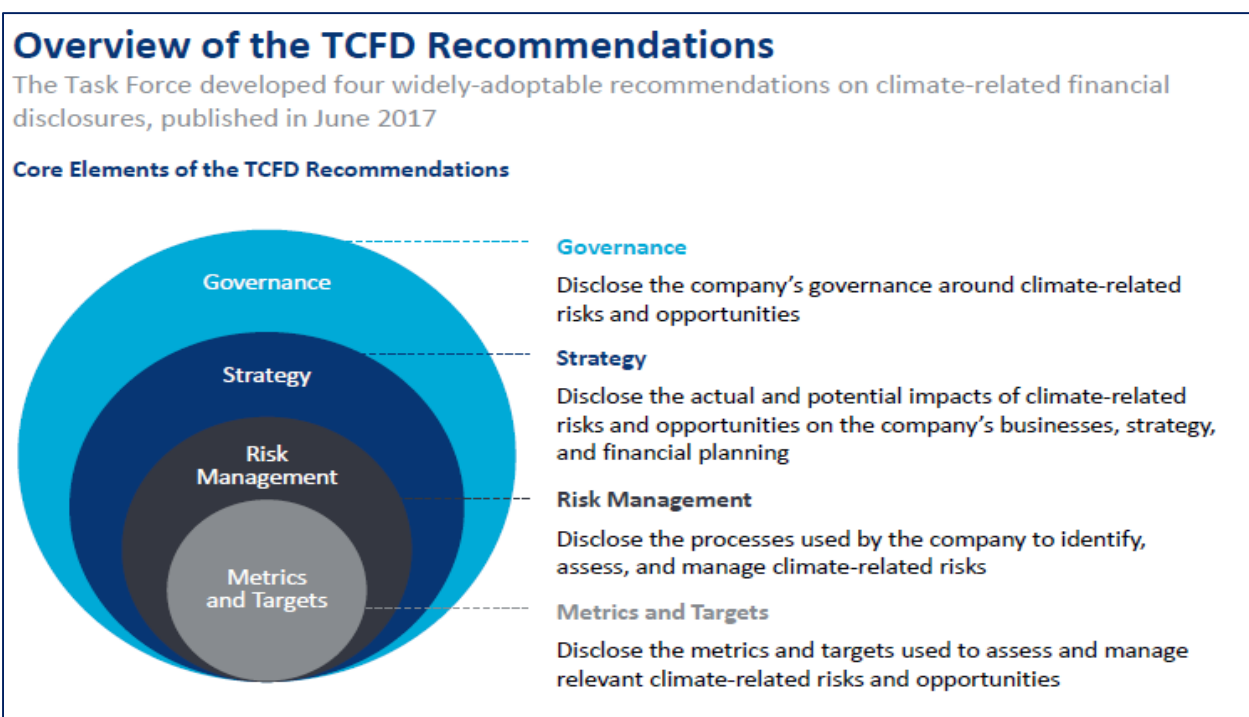
D. How could climate-related financial risks and opportunities be disclosed in federal financial reports?

The TCFD recommendations are structured around four thematic areas that represent core elements of how organizations operate. The recommendations include 11 supporting climate-related disclosures. By aligning with the TCFD recommendations, FASAB could model TCFD's globally recognized core elements: governance, strategy, risk management, and metrics and targets and the 11 recommended disclosures⁹. Per TCFD, the recommended disclosures should provide information that will help investors and others understand how reporting organizations think about and assess the financial impact of climate-related risks and opportunities.

⁹ <https://www.fsb-tcfd.org/recommendations/> page 14

FASAB can align with the TCFD framework to develop a similar framework that will assist federal reporting entities provide the information that decision makers and other users of federal financial reports can use to understand the financial impact of transition risks and opportunities, and physical risks.

In fact, the federal government has already started to align with the TCFD framework. For example, the Office of Management and Budget (OMB) just published the FY2022 A-136¹⁰, *Financial Reporting Requirements-Revised*, on 6/03/2022. A-136 has updated section 11.4.10 *Climate-Related Financial Risks*, to include 11.4.10.3 *Optional Governance, Strategy, Risk Management, and Metrics Information*. With this update, OMB is now encouraging significant entities to report on the four core elements laid out in the TCFD framework.



¹⁰ [Circulars | The White House](#), scroll to A-136, Financial Reporting Requirements - Revised (6/03/2022)

TCFD Recommended Disclosures

The Task Force developed 11 recommended disclosures across the four recommendations

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the company's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.	Disclose how the company identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.	a) Describe the company's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning.	b) Describe the company's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.	c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.

E. How could reporting entities disclose climate-related financial risks and opportunities across many different business sectors within the federal government?

TCFD provides supplemental guidance for all industry sectors, as well as for the following distinct industries¹¹: (a) four financial sector groups [banks, insurance companies, asset owners, and asset managers]; and (b) four non-financial groups [energy, transportation, materials and buildings, agriculture, food and forest products].

FASAB could model TCFD's supplemental guidance using **staff's preliminary mapping** from the TCFD identified sectors to federal agencies, in the below *Focus on the Implementation Guidance* chart.

¹¹ <https://www.fsb-tcfd.org/recommendations/> page 15

Focus on the Implementation Guidance

The Implementation Guidance provides guidance for all sectors and supplemental information for four financial industries and four groups of non-financial companies

Guidance for Financial Industries and Non-Financial Groups

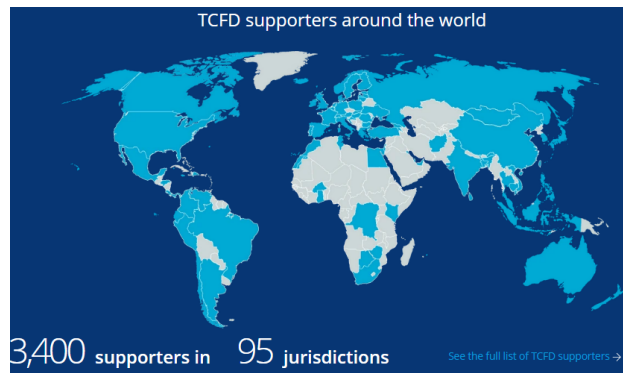
		Governance		Strategy			Risk Management			Metrics and Targets		
		a)	b)	a)	b)	c)	a)	b)	c)	a)	b)	c)
Guidance for All Sectors												
	All	All federal reporting entities										
Supplemental Guidance												
Financial Industries	Banks	Federal Credit Agencies										
	Insurance Companies	Federal Insurance Agencies										
	Asset Owners	All Federal Agencies										
	Asset Managers											
Non-Financial Groups	Energy	Department of Energy, EPA										
	Transportation	Department of Transportation, GSA, USPS										
	Materials and Buildings	GSA										
	Ag., Food, and Forest Products	USDA, Interior										

F. How could reporting entities consistently report climate-related financial disclosures across the federal government?

As of the date of this analysis, there were 3,400 organizations around the world from 95 jurisdictions that have declared support for TCFD-aligned disclosures, including the U.S. Securities and Exchange Commission (SEC), and two governments: Canada¹² and California¹³. All of these entities believe that consistent reporting of climate-related financial disclosures is of utmost importance for comparison and ease of understanding the financial impact of climate change around the globe. By aligning with TCFD recommendations, FASAB will have tools and resources to develop a framework that will produce consistent disclosures throughout the federal government.

¹² [Canada moves towards TCFD-aligned reporting | Environment Analyst Global \(environment-analyst.com\)](https://www.environment-analyst.com/news/canada-moves-towards-tcf-aligned-reporting/)





¹³ [Developing Climate Risk Disclosure Practices for the State of California - Report - Stanford Law School](https://www.stanfordlawschool.org/developing-climate-risk-disclosure-practices-for-the-state-of-california-report/)



Global Momentum of the TCFD Recommendations

Organizations around the world are increasingly expressing support for the TCFD recommendations

Jurisdictions Use of the TCFD Recommendations

-  **April 2021:** The European Commission issued a proposal calling for the development of sustainability reporting standards that take into account existing frameworks including the TCFD
-  **June 2021:** Switzerland's Financial Market Supervisory Authority amended disclosure rules for banks and insurers to include climate-related financial risks, based on the TCFD
-  **June 2021:** The Tokyo Stock Exchange issued a revised Corporate Governance Code that indicates certain companies should enhance disclosure based on the TCFD
-  **October 2021:** The Canadian Securities Administrators issued proposed disclosure requirements for issuers aligned with the four recommendations of the TCFD
-  **October 2021:** New Zealand passed a law to require certain organizations to make climate-related financial disclosures in line with the TCFD recommendations. The law is expected to go into effect in 2023, subject to the publication of reporting standards
-  **November 2021:** Australian Prudential Regulatory Authority published TCFD-aligned guidance on managing climate risks
-  **December 2021:** The Financial Conduct Authority issued a final rule requiring issuers to make TCFD-aligned disclosures on a comply or explain basis
-  **December 2021:** The Hong Kong Monetary Authority issued a manual on climate risk management and indicated the TCFD recommendations are "a desirable framework for [Authorized Institutions] to rely upon"
-  **December 2021:** The Brazilian Securities Exchange Commission amended its rules to require issuers to indicate whether they disclose information based on the TCFD recommendations or another recognized source
-  **December 2021:** The Singapore Exchange amended its rules to require climate reporting based on the TCFD by certain industries for FY2023 and additional industries for FY2024
-  **March 2022:** The U.S. Securities and Exchange Commission published a proposed rule on climate-related disclosures that incorporates key aspects of the TCFD framework

Other Supporting Initiatives



"We support moving towards mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants and that are based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, in line with domestic regulatory frameworks."



"We agree on the importance of promoting globally consistent, comparable high-quality standards of disclosure for sustainability reporting, building on the recommendations of the FSB's Task Force on Climate-related Financial Disclosures."



"The Commission supports initiatives by the G20, the G7, the Financial Stability Board and others to generate international commitment to develop a baseline of global sustainability reporting standards that would build on the work of the Task Force on Climate-related Financial Disclosures."



"The FSB strongly encourages national or regional authorities that are developing requirements or guidance for climate-related disclosures to consider using the TCFD recommendations as the basis."



The International Sustainability Standards Board's proposed sustainability standards that "build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)".

Canada moves towards TCFD-aligned reporting

The UK, France and Japan are leading the G7 on climate-related financial disclosure rules, followed by Canada and the US

11 January 2022 / Climate change, ESG, Global, Green finance, Net zero, North America

The Canadian prime minister Justin Trudeau has written to his deputy prime minister and environment and climate change minister, instructing them to move towards mandating climate reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.

The reporting regulations would apply to state and federal agencies, financial institutions and pension funds. Under the latest proposals from the Canadian Securities Administrators (CSA), public companies would be required to make climate-related disclosures informed by the TCFD from 2024.



Developing Climate Risk Disclosure Practices for the State of California

Details

Author(s): [Alicia Seiger](#) | [Thomas C. Heller](#)

Publish Date: September, 2021

Abstract

Called to serve by Governor Newsom as a follow-up to Executive Order N-19-19, the California Climate Risk Disclosure Advisory Group, Co-Chaired by [Alicia Seiger](#), was comprised of 20 global leaders with deep expertise in state and local government, infrastructure, economics, finance, accounting, banking, business, insurance, and investment portfolio management. The report offers over 45 recommendations to help the state better account for climate risks and opportunities impacting its \$262 general operating budget and the combined \$1 trillion in AUM across the state's biggest pensions. It serves as a roadmap for other states and asset owners in the face of climate-related physical and transition risks, and is groundbreaking in its reach, specificity and ambition.

In summary, staff recommends that FASAB align with TCFD recommendations to utilize globally accepted risk and opportunity categories, develop a framework for consistent disclosures across the federal government, and have access to a library of resources for developing the framework and implementation guidance for the many sectors of federal business activities.

Please use the member comment form (Attachment 3) to provide your responses.

Question #1 for the Board:

Do members agree with developing a climate-related financial disclosure framework that aligns with the related TCFD recommendations? **Yes or No?**

If No, please provide your reasoning and if possible, an alternative approach or model.

Proposed Project Plan

CLIMATE-RELATED FINANCIAL DISCLOSURES

June 9, 2022

Attachment 2

Climate – Phase II Climate-Related Financial Disclosure Framework Proposed Project Plan

Staff presents a proposed project plan for phase II of the climate project: climate related financial disclosure framework. Staff's goal for the June 2022 meeting is to gain approval for the recommendation to develop a climate-related financial disclosure framework that aligns with the related TCFD recommendations and the proposed project plan. Staff anticipates that it may take several months of Board deliberations to develop a draft climate-related financial disclosure framework.

Staff anticipates another six months for the Board to review comments and finalize the framework. Upon finalization of the framework, staff would recommend incorporating the climate project into the reexamination of existing standards project to identify any new pronouncements, amendments, and/or implementation guidance needed, for all subject or topics being addressed.

Board Meetings	Topics to Be Considered
June 2022	<ul style="list-style-type: none">• Kick-off project• Review and approve staff recommendation & project plan
August – February 2023	<ul style="list-style-type: none">• Activate task force• Develop draft climate-related financial disclosure framework proposal
February - June 2023	90 day comment period for invitation to comment or preliminary views document
August – December 2023	<ul style="list-style-type: none">• Present members with comment results• Finalize climate-related financial disclosure framework.
2024	Merge climate project with the reexamination of existing standards project to determine if new pronouncements, amendments, and/or implementation guidance is needed in relation to the climate-related financial disclosure framework.

Please use the member comment form (Attachment 3) to provide your responses.

Question #2 for the Board:

Do members agree with the proposed project plan? **Yes or No?**

If No, please provide your reasoning and suggested update(s).

Question #3 for the Board:

What type of information would the Board like to gain from a task force to help develop the climate-related financial disclosure framework?

Please be specific.

MEMBER COMMENT FORM
TOPIC D – CLIMATE
ATTACHMENT 3
June 2022

Member Instructions:

Please provide your responses to the following questions:

Question #1 for the Board:

Do members agree with developing a climate-related financial disclosure framework that aligns with the related TCFD recommendations? **Yes or No?**

If No, please provide your reasoning and if possible, an alternative approach or model.

Member Name:

Question #1 Response:

Yes_____

No_____ please provide your reasoning and if possible, an alternative approach or model.

Question #2 for the Board:

Do members agree with the proposed project plan? **Yes or No?**

If No, please provide your reasoning and suggested update(s).

Member Name:

Question #2 Response:

Yes_____

No_____ please provide your reasoning and suggested update(s).

MEMBER COMMENT FORM
TOPIC D – CLIMATE
ATTACHMENT 3
June 2022

Question #3 for the Board:

What type of information would the Board like to gain from a task force to help develop the climate-related financial disclosure framework?

Please be specific.

Member Name:

Question #3 Response - please be specific: