

Memorandum
CLIMATE-RELATED
FINANCIAL REPORTING
November 21, 2023

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **Climate-Related Financial Disclosure Vision Statement** - (Topic B)

INTRODUCTION

The objective of this agenda session is to review a draft vision statement for the climate-related financial disclosure framework (the framework). The attached staff analysis and recommendations are intended to support the Board's review and approval of a vision statement that guides development of the framework.

REQUEST FOR FEEDBACK BY DECEMBER 4, 2023

Prior to the Board's December meeting, please review the attached staff analysis and respond to the ensuing question by **DECEMBER 4, 2023**. Please submit responses to Robin Gilliam at gilliamr@fasab.gov with a cc to Monica Valentine at valentinem@fasab.gov.

NEXT STEPS

Staff will present analysis and recommendations for developing the climate-related financial disclosure framework.

ATTACHMENTS

1. Attachment 1 – Staff Analysis
2. Member Comment Form

CONTEXT

At the October 2023 meeting, members agreed to develop a vision statement to determine the Board's objective and scope for what information should be proposed for climate-related financial reporting. Members want a clear understanding of the Board's vision before development begins on the climate-related financial disclosure framework (the framework). Staff recommends a vision statement to guide members in developing the framework.

The objective for this meeting is to review and approve the recommended vision statement.

STAFF ANALYSIS AND RECOMMENDATIONS

From June 2022 to October 2023, members received educational sessions from climate-related subject matter experts and discussed potential climate-related financial information to include in federal financial reports. Members discussed including the following climate-related financial information:

- Losses¹ from climate-related events and hazards,
- Climate services investments and achievements,
- Climate-related risks and opportunities, and
- Climate-related impact on gross domestic product (GPD).

¹ The FASAB Handbook defines loss as "Any expense or irrecoverable cost, often referred to as a form of nonrecurring charge, an expenditure from which no present or future benefit may be expected."

A. RECOMMENDED INFORMATION FOR THE VISION STATEMENT

Based on the Board's discussions, staff recommends that the vision statement include (1) losses from climate-related events and hazards; (2) climate services investments and achievements; (3) climate-related risks and opportunities; and (4) climate-related impact on gross domestic product (GPD).

1. LOSSES FROM CLIMATE-RELATED EVENTS AND HAZARDS

Losses are costs federal government reporting entities incur as a result of damages from climate-related events and hazards. Climate related events may include, for example, floods or wildfires. Climate hazards may include, for example, extreme heat or rising sea levels as a result of climate change. Extreme heat could cause runways to melt, whereas rising sea levels may inundate and damage or destroy infrastructure or buildings.²

According to the National Centers for Environmental Information, National Oceanic and Atmospheric Administration (NOAA) [Billion-Dollar Weather and Climate Disaster](#) webpage:

The U.S. has sustained 373 weather and climate disasters since 1980 where overall damages/costs reached or exceeded \$1 billion (including CPI adjustment to 2023). The total cost of these 373 events exceeds \$2.645 trillion.

2023 in Progress...

In 2023 (as of November 8), there have been 25 confirmed weather/climate disaster events with losses exceeding \$1 billion each to affect United States. These events included 1 drought event, 2 flooding events, 19 severe storm events, 1 tropical cyclone event, 1 wildfire event, and 1 winter storm event. Overall, these events resulted in the deaths of 464 people and had significant economic effects on the areas impacted.

At the October 2023 Board meeting, members discussed including climate-related expenditures in federal financial reports. Therefore, staff recommends including losses from climate-related events and hazards in the vision statement.

² Examples provided at the United States Global Change Research Program Climate Services Summit, held on November 8, 2023.

2. CLIMATE SERVICES INVESTMENTS AND ACHIEVEMENTS

In addition to incurring losses from climate-related events and hazards, the federal government invests billions of dollars in adaptation and mitigation projects to increase climate-resilience in communities and federal facilities across the United States.

In October 2023, staff presented information on federal climate-related investments³ such as the Inflation Reduction Act⁴ (IRA) and Bipartisan Infrastructure Law⁵ (BIL), also known as the Infrastructure Investment and Job Act (IIJA) that were passed to address and reduce climate-related fiscal risks.

The IRA was passed on August 16, 2022. It will invest \$369 billion in energy security and climate change programs over 10 years. This investment primarily addresses activities that will help the federal government to reduce carbon emissions by approximately 40% by 2030.

The BIL /IIJA was passed on November 15, 2021. It will invest approximately \$1.2 trillion for transportation and infrastructure spending—\$650 billion for already existing projects and \$550 billion in investments for new programs, over 5 years. The BIL/IIJA primarily address physical asset and supply chain risks through mitigation, adaptation, and resilience.

Climate-related investments are meant “to advance climate resilience strategies in every community, while also slashing greenhouse gas emissions to reduce climate impacts in the future.” Climate resilience strategies are provided through “climate services⁶.” By increasing climate-resilience, the federal government hopes to reduce climate-related fiscal risk.

At the October 2023 Board meeting, members discussed including information on climate services investments and achievements in federal financial reports. Financial information on climate services investments and achievements may include funding and expenditures to understand how reporting entities are addressing and reducing the financial impact of climate risk. Therefore, staff recommends including climate services investments and achievements in the vision statement.

³ [The October 2023 FASAB Climate Board memorandum provides a detailed discussion of the IRA and BIL.](#)

⁴ [Building a Clean Energy Economy. CleanEnergy.gov](#)

⁵ [Investing in America: build.gov](#)

⁶ According to [A Federal Framework and Action Plan](#), page 6: Climate services can be defined as “scientifically-based, usable information and products that enhance knowledge and understanding about the impacts of climate change on potential decisions and actions.”⁶ ...climate services ...have been distributed across agencies, and, appropriately, relevant to specific agency missions

3. CLIMATE-RELATED FISCAL RISKS AND OPPORTUNITIES

According to the FY 2023 Analytical Perspectives chapter 21, page 277: *Federal Budget Exposure to Climate Risk*⁷:

“The Office of Management and Budget (OMB) estimates that the Federal Government could spend between an additional \$25 billion to \$128 billion annually due to six climate-related financial risks, including disaster relief, flood insurance, crop insurance, healthcare expenditures, wildland fire suppression spending, and flood risk at Federal facilities by late century...

...The Federal budget is subject to many other climate-related risks which have not been quantified, such as the risks to national security, changes to ecosystems, and infrastructure expenditures.”

At the October 2023 Board meeting, members discussed including climate-related risk and opportunities in federal financial reports. Therefore, staff recommends including climate-related risks and opportunities in the vision statement.

4. CLIMATE-RELATED IMPACT ON GROSS DOMESTIC PRODUCT (GDP)

The Financial Statements of the United States Government discusses GDP⁸ and debt-to-GDP in the *Sustainability Financial Statements*, which includes Statements of *Long-Term Fiscal Projections* (SLTFP).

“The SLTFP...are intended to help readers of the government’s financial statements assess the federal government’s financial condition and how it has changed during the year and may change in the future. The statements and corresponding analysis are specifically designed to help readers assess whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they come due, assuming that current policy for federal government services and taxation continues without change.

⁷ FY 2023 Analytical Perspectives chapter 21, page 277: *Federal Budget Exposure to Climate Risk*.
https://www.whitehouse.gov/wp-content/uploads/2022/04/ap_21_climate_risk_fy2023.pdf

⁸ The FASAB Handbook, Appendix E, *Consolidated Glossary* of defines GDP as: A nation's gross domestic product is one of the ways for measuring the size of its economy. The GDP of a nation is defined as the total market value of all final goods and services produced domestically during a given period of time. The components of GDP... = private sector consumption and investment + government consumption and investment + net exports (exports - imports).

As discussed further in [Note 24](#), a sustainable policy is one where the debt-to-GDP ratio is stable or declining over the long term. Because GDP measures the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year, the debt-to-GDP ratio is a useful indicator of the economy's capacity to support federal government's services."

"The OMB long-range budget projections found that Federal revenues could be 7.1 percent lower annually by 2100 (about \$2 trillion in today's terms) under a scenario in which climate change reduced U.S. GDP by 10.0 percent."⁹

At the October 2023 Board meetings, members said they wanted to understand what climate-related information was included in current government-wide reporting and what information may be missing.

While the Analytical Perspectives provides an estimate for a change in GDP due to climate change, the Sustainability Financial Statements and Note 24 do not include climate-related information or its impact on the U.S. economy. Therefore, staff recommends including climate-related impact on gross domestic product in the vision statement.

B. RECOMMENDED VISION STATEMENT

Due to the above analysis, staff recommends the following vision statement:

To understand the climate-related impact on federal reporting entity's financial position, financial condition, and operating performance, financial reports should include quantitative and qualitative information on

- (1) losses from climate-related events and hazards,
- (2) climate services investments and achievements,
- (3) climate-related risks and opportunities, and
- (4) climate-related impact on gross domestic product.

This vision statement is intended to guide the Board in developing the climate-related financial disclosure framework, as it identifies information that members agree is

⁹ FY 2023 Analytical Perspectives chapter 21, page 277: *Federal Budget Exposure to Climate Risk*.
https://www.whitehouse.gov/wp-content/uploads/2022/04/ap_21_climate_risk_fy2023.pdf

important to federal financial reporting. This vision statement will provide a focus for determining what climate-related financial information is already accounted for and reported on in the financial reports and what additional information is needed in the framework.

Question #1 for the Board:

Do members agree with the draft vision statement?

Please provide your answer and comments in the Board Member Comment Form