

# Memorandum

## CLIMATE-RELATED FINANCIAL REPORTING

October 9, 2024

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **Next Steps for Climate-Related Financial Reporting Project** - (Topic B)

### INTRODUCTION

The focus of this agenda session is to review the project history, accomplishments, and determine next steps for the Climate-Related Financial Reporting Project.

### REQUEST FOR FEEDBACK BY October 16, 2024

Prior to the Board's October 2024 meeting, please review the attached staff analysis and respond to the ensuing questions by October 16, 2024. Please submit responses to Robin Gilliam at [gilliamr@fasab.gov](mailto:gilliamr@fasab.gov) with a cc to Monica Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov).

### NEXT STEPS

To be determined based on the October Board deliberations.

### ATTACHMENTS

1. Staff Analysis
2. Member Comment Form

## STAFF ANALYSIS AND RECOMMENDATIONS

As noted on the climate-related financial reporting [project page](#), the objective of the project is to provide guidance for reporting entities on reporting the financial impact of climate-related matters in financial statements. The Board agreed on two phases to address this objective. Staff believes the objectives of the below phases are now complete.

- Phase I: develop a non-authoritative staff paper *Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting*.
- Phase II: use *SFFAS 64, Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15* (SFFAS 64), released as final on September 27, 2024, as the framework for reporting climate-related financial information in MD&A.

The staff analysis will show how SFFAS 64 can be used as a framework for reporting entities to report the financial impact of climate-related matters (events and risks) on a federal reporting entity's financial position, condition, and operating performance.

Given the completion of these phases, staff recommends the Board move the climate-related financial reporting project from the Board's active projects agenda to a research topic as the project's next steps are determined.

### I. Project History

#### PHASE I

On **May 17, 2022**, the first phase of the project was completed with the release of the non-authoritative staff paper *Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting* found on the FASAB website. The staff paper catalogs existing Statement of Federal Financial Accounting Standards (SFFAS) that federal entities may consider when accounting for or reporting 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.

## PHASE II

The second phase of the project began in **June 2022**. The objective of the phase was to develop a climate-related financial reporting framework (framework). During this phase of the project the Board learned about the Task Force for Climate-Related Financial Disclosures (TCFD)—a commercial entity framework—as a potential framework to adopt for federal financial reporting. At the June 2022 meeting, the Board agreed to analyze TCFD as a starting point for developing the framework.

The Board activated a **task force** of approximately 60 members across the federal government to provide climate-related expertise and information to assist in developing the framework.

From **December 2022 through June 2023 meetings**, staff presented education sessions—utilizing task force expertise—to familiarize members with the TCFD recommended disclosures.

In **June 2023**, the International Sustainability Standards Board (ISSB) published the International Financial Reporting Standards (IFRS) S2, *Climate Related Disclosures* (S2). S2 absorbed TCFD by included the four core TCFD thematic areas (governance, strategy, risk management, and metrics and targets) and the eleven TCFD recommended disclosures as its “core content.”

At the **August 2023 meeting**, the Board agreed to begin developing the framework using IFRS S2. However, members were concerned that S2 was an extensive list of requirements, **many of which were non-financial** and may not support FASAB’s mission and concepts.

At the **October 2023 meeting**, the Board agreed to develop a vision statement to determine the project’s objective and scope against which to analyze how relevant S2 is for federal financial reporting.

At the **December 2023 meeting** the Board agreed on the following vision statement:

**The vision for climate-related financial reporting** is to provide users relevant information on the current and potential impact of climate-related events and risks on a federal reporting entity’s financial position, condition, and operating performance.

From **January – June 2024**, staff engaged in the following research to determine what S2/TCFD disclosures—based on the Board’s vision—were relevant for the federal framework. Staff performed the following tasks:

1. Conducted the *Survey to Assist FASAB in Developing the Federal Climate-related Financial Reporting Framework*.
2. Reviewed the survey results.
3. Reviewed the climate information included in FY 2023 agency financial reports (AFR).
4. Compared the approximately 158 S2 disclosures to the Board's vision statement for climate-related financial reporting (vision).

Based on this research, staff suggested 11 of the approximately 158 S2 disclosures that may be relevant for the federal climate-related financial reporting framework.

At the **June 2024 meeting** Members narrowed down the 11 proposed disclosures to the following:

1. Explain material impacts to the reporting entity's financial position, financial condition, or key performance results from adaptation, mitigation, or resilience activities undertaken to manage climate-related risks or opportunities for physical, transition, or credit portfolio risks.
2. Discuss climate-related spending which occurred during the reporting period.

The June 2024 meeting also concluded with five suggested questions from members related to developing the climate-related financial reporting framework.

At the **August 2024 meeting**, the Board explored the five member questions with subject matter experts to help determine how to proceed with developing the framework. The following is a summary of what members learned and the related challenges.

**Question #1: How does the Federal Emergency Management Agency (FEMA) distinguish a climate-related event from a natural disaster/non-climate-related event?**

Members learned that FEMA does NOT distinguish a climate-related event from a natural disaster/non-climate-related event. FEMA focuses on impacts to communities and how to lessen those impacts, with a focus on climate resilience. FEMA analyzes risk through a common understanding of components in relation to its mission. Four of those components are threat/hazard, exposure, vulnerability, and coping capacity.

**Question #2: Has the federal government defined a "climate-related event"?**

Members learned that there is NOT a federally used definition for "climate-related events" because climate change may be a contributing factor among many other factors for the events that are tracked by the National Oceanic and Atmospheric Administration (NOAA).

**CHALLENGE:** Members believe it would be difficult for reporting entities to separately account for “climate-related events” that the federal government has not specifically designated as climate-related.

### **Question #3: How does the federal government define “climate services”?**

Members learned that the [U.S. Global Change Research Program \(USGCRP\)](#) defines **climate services** as: scientifically based, usable information, products, and activities that enhance knowledge and understanding about the impacts of climate change on potential decisions and actions.

According to USGCRP:

- *the accelerating pace of climate change and its impacts, being felt now across the country, emphasizes the urgent and expedient need for the federal government to expand and advance climate services.*
- *The vision is to create an integrated federal ecosystem of products, tools, and people that is accessible to decision-makers, businesses, and frontline communities facing the impacts of climate change, where these stakeholders will have seamless access to the full suite of federal knowledge and tools to help inform decisions relating to adaptation, mitigation, and building resiliency.*

**CHALLENGE:** Members were interested in learning about climate services to understand if funding for these activities could be accounted for distinctly in the financial statements. The next two questions further clarified the difficulty in making that distinction.

### **Questions #4 and #5: What is the availability of climate-related information and the capacity of agencies to report spending for climate-related events?**

Members learned that most agencies have little capacity or adequate data to provide climate spending information in federal financial reports. For example, OMB uses object classes for aggregating similar obligations across the government. However, there is no specific object class for climate-related obligations.

Per a recent GAO report<sup>1</sup>, executive orders and Office of Management and Budget (OMB) guidance have directed federal agencies to report climate-related financial risks. OMB requests this climate-related information through data calls. Reporting entities then analyze their budget data and estimate whether an appropriation is climate-related. Entity analysis is at a very granular level, is not an accrual-cost measurement, and is not built into the systematic processing of transactions.

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<sup>1</sup> GAO-24-106937, Climate Resilience: Congressional Action Needed to Enhance Climate Economics Information and to Limit Federal Fiscal Exposure, September 26, 2024, highlights.

Therefore, separating climate-related costs from other costs, does not yet exist government-wide.

**CHALLENGE:** Most federal entities are not able to separate climate-related costs from other costs due to little capacity and/or lack of data.

## **II. SFFAS 64 Guidance for Climate-related Financial Reporting**

Based on the August 2024 member discussions and education session, members agreed that the updated MD&A guidance in SFFAS 64 provides the framework for reporting climate-related financial information in MD&A. The following staff analysis will show how the SFFAS 64 standards provide guidance for reporting significant climate-related information in entity's MD&A:

### **A. SFFAS 64 - Paragraph 12.b MD&A should discuss and analyze the following information about the reporting entity's:**

***Causes of significant changes and trends in financial position as explained by the composition or balances of assets, liabilities, net position, costs, revenues, budgetary resources, and financing sources.***

If an entity has experienced a significant change in its financial position or trend that was caused by climate-related activities, management should explain the change in the MD&A.

For example, if an entity's *Fund Balance with Treasury* increased significantly due to funding from the Inflation Reduction Act (IRA) or Bipartisan Infrastructure Law (BIL), also known as the Infrastructure Investment and Jobs Act (IIJA), management would explain this in the MD&A according to SFFAS 64, paragraph 12.b.

### **B. SFFAS 64 - Paragraph 12.d MD&A should discuss and analyze the following information about the reporting entity's:**

***Key performance results and their associated costs, such as:***

- i. Performance results that are key to the reporting entity. For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.***
- ii. Actual costs incurred by the reporting entity to accomplish key performance results.***

**iii. Cost savings, if any, that the reporting entity might experience with the accomplishment of key performance results.**

If an entity has key performance results that are climate-related, management should explain those performance results in the MD&A along with the related costs and any costs savings.

For example, the below entities have included the following information in their fiscal year (FY) 2023 financial reports. In FY2024, management would explain the related key performance results in MD&A, according to SFFAS 64 paragraph 12.d.

- [Department of Transportation's FY 2023 Management's Discussion and Analysis](#), page 11, Strategic Goal 4: *Climate and Sustainability* states

*Tackle the climate crisis by ensuring that transportation plays a central role in the solution. Substantially reduce greenhouse gas (GHG) emissions and transportation-related pollution and build more resilient and sustainable transportation systems to benefit and protect communities.*

- [General Service Administration's FY 2023 Management's Discussion and Analysis](#) page 24, Strategic Goal #1: *Real Estate Solutions* states

*Establish and implement cross-cutting solutions that mitigate climate risks by increasing building resilience, reducing overall greenhouse gas emissions, improving energy, water, and waste efficiency, and supporting the transition to carbon pollution-free electricity.*

**C. SFFAS 64 - Paragraph 12.e MD&A should discuss and analyze the following information about the reporting entity's:**

***Significant opportunities identified by management to enhance key performance results, plans to leverage such opportunities, and the potential effect on financial and budgetary results of carrying out those plans.***

If an entity is managing a climate-related opportunity that could cause a significant change in the financial position or trend in the future, then management should explain that in the MD&A.

For example, if an entity is expecting IRA or BIL/IIJA funding for climate services the reporting entity should explain in MD&A how it is a significant opportunity for the reporting entity, according to SFFAS 64 paragraph 12.e.

**D. SFFAS 64 - Paragraph 12.f MD&A should discuss and analyze the following information about the reporting entity's:**

***Significant risks identified by management that have a potentially negative effect on key performance results, plans to mitigate such risks, and the potential effect on financial and budgetary results of carrying out those plans.***

If an entity has a climate-related risk that could cause a significant change in its financial position or trend in the future, then management should explain that in the MD&A.

For example, an entity should explain if it has any PP&E that is at risk for impairment due a climate-related event/hazard, such as sea-level rise or extreme heat in its MD&A, according to SFFAS 64 paragraph 12.f.

**In summary**, if an entity's climate-related information meets the requirements of SFFAS 64 then management should include it in their MD&A.

**Given the completion of these phases, staff recommends the Board move the climate-related financial reporting project from the Board's active projects agenda to a research topic as the project's next steps are determined.**

Staff suggests the following research tasks be considered:

1. Analyze the staff paper, [\*Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting\*](#), to determine if updates are needed or if an authoritative pronouncement should be developed, such as a staff implementation document.
2. Review federal entity financial reports, beginning in FY25, to determine what climate-related financial information entities have reported in MD&A in accordance with SFFAS 64.
3. Assess whether current climate-policy has changed and what affect that may have on OMB A-136 climate-related reporting?
4. Monitor any changes in object classes intended to track climate-related obligations?
5. Monitor how other public entities are reporting climate-related financial information in their financial reports.

Staff also recommends that the climate task force remain intact as the project moves to a research topic.



**Question #1 for the Board:**

Does the Board agree to move the climate-related financial reporting project from the Board's active project agenda to a research topic and to move forward with the suggested research tasks staff has identified?

Please provide your responses and comments in the member comment form.