

Statements of Federal Financial Accounting Standards That May Be Relevant to Climate-Related Financial Reporting

Staff Paper

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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.

Summary of Updates:

Section	Section Title	Change
Entire Document	Throughout	Updated the term “event” to “activity.”
Required Supplementary Information	MD&A	Removed references to SFFAS 15, <i>Management’s Discussions and Analysis</i> , and replaced it with requirements from SFFAS 64, <i>Management’s Discussion and Analysis, Rescinding and Replacing SFFAS 15</i> .

Introduction

Federal financial reports 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 activity and climate-related financial risks may affect the financial position and condition of the federal government. In those instances when climate-related activity or climate-related financial risks affect the financial reports, 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 activity 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 attempt to address every potential climate-related scenario that agencies may encounter. Reporting entities may submit a [technical inquiry](#) to FASAB staff for questions about FASAB guidance.

Terms

Staff describes these terms as follows only for the purposes of this non-authoritative staff paper:¹

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

Climate-related financial risk refers to the potential material effect on future federal financial statements as a result of a current or future climate-related activity.

Relevant Statements of Federal Financial Accounting Standards

Current SFFASs do not explicitly discuss climate-related activity or climate-related financial risk. However, this guide presents current SFFASs in the following broad financial reporting categories: assets, liabilities, other transactions (those that may affect assets and/or liabilities) and required supplementary information (RSI).² These broad categories list specific SFFASs that may be applicable to accounting for and reporting of the financial effects of climate-related activity or risks.

Assets

An asset is a resource that embodies economic benefits or services that the federal government controls.³ This topic addresses (1) inventory and related property and (2) property, plant, and equipment (PP&E).

¹ These terms are included in this staff paper for reference purposes only; they are not intended to reflect authoritative views of FASAB or its staff. Official positions of FASAB are determined only after extensive Board due process and deliberations.

² SFFASs for revenues and expenses are not referenced in this staff paper. As stated in the *Focus on Assets and Liabilities* section of Statement of Federal Financial Accounting Concepts (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."

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 Activity on Assets	
SFFAS 3, <i>Accounting for Inventory and Related Property</i>	<p>Inventory and Related Property</p> <p>SFFAS 3 provides accounting standards that apply to the valuation of inventory and related property held by federal government agencies.</p> <p>Paragraphs 29-34, 47-49, 54, and 97 of SFFAS 3 provide guidance for valuing inventory and related property.</p> <p>Climate-related activity may affect the valuation of inventory or related property.</p>
<p>SFFAS 6, <i>Accounting for Property, Plant, and Equipment</i></p> <p>SFFAS 29, <i>Heritage Assets and Stewardship Land</i></p> <p>SFFAS 42, <i>Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32</i></p> <p>SFFAS 44, <i>Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use</i></p>	<p>Property, Plant and Equipment</p> <p>SFFAS 6, 29, 44, and 42 provide accounting standards that apply to federally owned property, plant, and equipment (PP&E), including heritage assets and stewardship land.</p> <p>Destroyed PP&E</p> <p>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.</p> <p>Climate-related activity may affect the condition of an asset, such that it no longer provides service to the operations of the entity.</p> <p>Deferred Maintenance and Repairs</p> <p>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.</p> <p>Climate-related activity may affect the condition of an asset and result in deferred maintenance and repairs.</p> <p>Impaired PP&E</p> <p>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.</p> <p>Climate-related activity may cause a permanent decline in service utility.</p>

<p align="center">SFFASs That May Be Relevant to Account for the Effects of Climate-Related Activity on Assets</p>	

Liabilities

A liability is a probable future outflow or other sacrifice of resources as a result of past transactions or events.⁴ This topic addresses (1) liabilities and contingencies, (2) environmental cleanup costs, and (3) insurance.

<p align="center">SFFASs That May Be Relevant to Account for the Effects of Climate-Related Activity on Liabilities</p>	
<p><i>SFFAS 5, Accounting for Liabilities of the Federal Government</i></p>	<p align="center">Liabilities and Contingencies</p> <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>Climate-related activity may result in new liabilities or changes in existing liabilities, such as those related to disaster relief, other benefits, repairs, or maintenance. They may also result in changes to the likelihood or measurability of contingencies.</p>
<p><i>SFFAS 6, Accounting for Property, Plant, and Equipment</i></p>	<p 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>Paragraphs 94-111 of SFFAS 6 provide guidance for expenses and requirements for recognition, measurement, and disclosures.</p> <p>Climate-related activity may result in environmental cleanup liabilities for new or existing sites.</p>

⁴ 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 Activity on Liabilities	
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 of SFFAS 51 provide guidance for estimating the liability and requirements for recognition, measurement, and disclosures.</p> <p>Climate-related activity 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 Activity on Other Transactions	
SFFAS 49, <i>Public-Private Partnerships: Disclosure Requirements</i>	<p style="text-align: center;">Public-Private Partnerships (P3s)</p> <p>SFFAS 49 provides accounting standards that apply to P3s.</p> <p>Paragraphs 20-25 of SFFAS 49 provide disclosure requirements for P3s.</p> <p>Climate-related activity may affect P3 disclosures.</p>
SFFAS 54, <i>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)</i>	<p style="text-align: center;">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>Climate-related activity may affect recorded lease assets and liabilities, such as through remeasurements, modifications, or terminations that may occur as a result of damages to the underlying asset of the lease.</p>

Required Supplementary Information

RSI is information that SFFASs require 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 Activity and/or Climate-Related Financial Risks in RSI	
<p>SFFAS 64, Management's Discussion and Analysis, rescinding and replacing SFFAS 15.</p>	<p style="text-align: center;">MD&A</p> <p>SFFAS 64 provides guidance management should use for reporting climate-related financial information in MD&A. SFFAS 64 is effective for reporting periods beginning after September 30, 2025 (FY 2026). Early implementation is permitted.</p> <p><u>Paragraph 12.b. of SFFAS 64</u> provides guidance on information that reporting entities should discuss and analyze in MD&A about:</p> <p style="padding-left: 40px;"><i>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.</i></p> <p>Climate-related activity may cause a significant change in the reporting entity's financial position. Management may discuss and analyze the change in the MD&A.</p> <p><u>Paragraph 12.c. of SFFAS 64</u> provides guidance on information that reporting entities should discuss and analyze in MD&A about:</p> <p style="padding-left: 40px;"><i>Causes of significant changes and trends in financial condition related to business-type activity, social insurance, long-term fiscal projections, and RSI.</i></p> <p>Climate-related activity may cause a significant change in the reporting entity's financial condition. Management may discuss and analyze the change in the MD&A.</p> <p><u>Paragraph 12.d. of SFFAS 64</u> provides guidance on information reporting entities should discuss and analyze in MD&A about:</p> <p style="padding-left: 40px;"><i>Key performance results and their associated costs, such as:</i></p> <p style="padding-left: 80px;"><i>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.</i></p>

**SFFASs That May Be Relevant to Report on the Effects of
Climate-Related Activity and/or Climate-Related Financial Risks in RSI**

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.

Climate-related activity may affect key performance results. Management may discuss and analyze in the MD&A actual costs incurred to accomplish key performance results.

Paragraph 12.e. of SFFAS 64 provides guidance on information reporting entities should discuss and analyze in MD&A about:

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.

Climate-related opportunities, such as investments in mitigation or adaptation for climate resilience, could enhance key performance results. Management may discuss and analyze in the MD&A the reporting entity's plans to leverage such opportunities and the potential effect on financial and budgetary results of carrying out those plans.

SFFAS 64 - Paragraph 12.f provides guidance on information reporting entities should discuss and analyze in MD&A about:

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.

Climate-related risks, such as possible damage to PP&E due to rising sea levels or extreme change in temperature, could have a potentially negative effect on key performance results. Management may discuss and analyze in the MD&A the reporting entity's plans to mitigate such risks and the potential effect on financial and budgetary results of carrying out those plans.

**SFFASs That May Be Relevant to Report on the Effects of
Climate-Related Activity and/or Climate-Related Financial Risks in RSI**

<p>SFFAS 38, <i>Accounting for Federal Oil and Gas Resources</i></p>	<p style="text-align: center;">Federal Oil and Gas Resources</p> <p>Paragraphs 13-29 of SFFAS 38 provides accounting standards that apply to federal oil and gas resources.</p> <p>Climate-related activity may affect royalties from federal oil and gas resources.</p>
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Reporting entities may submit [technical inquiries](#) when additional information is necessary.