

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD
Board Meeting Minutes
December 14, 2021
Zoom for Government

<i>Tuesday, December 14, 2021</i>	1
Attendance	1
Administrative Matters	1
• Approval of Minutes.....	1
• Updates and Clippings.....	2
Agenda Topics	2
• Environmental, Social, and Governance Education Session.....	2
• Climate-Related Financial Reporting	4
• Omnibus Concepts Amendments.....	4
• Management’s Discussion and Analysis	6
Adjournment	7

For research purposes, please see the briefing materials at www.fasab.gov. Briefing materials for each session are organized by tab; references to these tabs in the minutes are hyperlinked.

Tuesday, December 14, 2021

Attendance

The following Federal Accounting Standards Advisory Board (FASAB or “the Board”) members were present throughout the meeting: Messrs. Scott (chair) and Bell, Ms. Bronner, Mr. Dacey, Mses. Harper and Johnson, and Messrs. McNamee, Patton, and Smith. The executive director, Ms. Valentine, and general counsel, Mr. Culliton, were also present throughout the meeting. Ms. Valentine conducted a verbal roll call of the members.

Administrative Matters

- **Approval of Minutes**

The Board approved the October meeting minutes prior to the meeting.

- **Updates and Clippings**

Mr. Scott asked the members if there were any comments on the clippings. Ms. Johnson noted her appreciation with getting the clippings weekly as opposed to every other month. No other members had comments.

Ms. Reese, Governmental Accounting Standards Board (GASB) senior project manager, provided a brief overview of GASB's recent activities.

Ms. Reese first noted the "big three" projects: the conceptual framework project on disclosures that GASB had re-exposed in late June, the revenue and expense preliminary views document, and the financial reporting model reexamination. The comment period for the conceptual framework document recently ended, so GASB plans to discuss the topic at a future meeting. GASB is in the process of reviewing the feedback on the revenue and expense preliminary views document. The Board also held an education session on executory contracts and reviewed the results of the revenue and expense preliminary views field test. On the financial reporting model reexamination project, the Board is considering the feedback.

GASB issued Statement 98 renaming state and local government financial reports to the Annual Comprehensive Financial Report. The Board is also reviewing the feedback on the Compensated Absences, Accounting Changes, and Error Correction exposure draft (ED), as well as the feedback on the Omnibus ED.

GASB continues to work on the risk and uncertainty disclosures project. The Board also added two projects to its agenda—one on going concern and severe financial stress disclosures and another on classification of non-financial assets.

Mr. Scott thanked Ms. Reese for keeping the Board informed of GASB's activities.

Mr. Scott noted the extensive outreach efforts in the past two months from both Board members and staff. He also mentioned topic E, which included information on non-agenda topics.

Ms. Valentine introduced FASAB's new general counsel, Todd Culliton. Mr. Culliton is an assistant general counsel with the Government Accountability Office. Ms. Kate Hudson will continue to support Mr. Culliton on FASAB matters. Members and staff welcomed him. Mr. Culliton expressed that he was looking forward to working with FASAB members and staff.

Agenda Topics

- **Environmental, Social, and Governance Education Session**

Mr. Scott introduced the Environmental, Social, and Governance (ESG) education session from [topic A](#). He noted that during the October 2021 climate session, members

had expressed an interest in ESG. Therefore, the objective of this session was to introduce ESG and its connection to climate.

Ms. Gilliam, assistant director, welcomed Ms. Corinne Dougherty, who is a partner at KPMG's Washington, DC office. Ms. Dougherty has over 18 years of experience in providing audit and advisory services to federal government clients and leads KPMG's federal ESG practice. In addition, she has experience in providing ESG assurance services to clients.

Ms. Dougherty answered the following questions during her presentation:

- What is ESG?
- Why is ESG important now?
- Where does climate fit in?

Ms. Dougherty also discussed ESG reporting and frameworks, the regulatory landscape, the ESG history, and the role of finance.

Ms. Dougherty's full presentation can be found at attachment 1 of the minutes.

Ms. Dougherty answered the following questions from members:

Question #1: What are other government standard setters looking for in their unique role as regulators for climate disclosures and for overall operations?

Ms. Dougherty: Other countries are making net zero emission commitments a high priority but most are not yet reporting on the government's progress against their commitments.

Question #2: Are you finding interest from federal agencies for reporting on and disclosing information on obtaining net zero emissions?

Ms. Dougherty: Operations staff is determining how to decarbonize to reduce greenhouse gas emissions. They are assessing how to accumulate current greenhouse gas data to report the journey to net zero emissions.

Question #3: Are industries waiting to see what regulators will require for disclosures or are they taking the initiative to begin reporting?

Ms. Dougherty: Some companies are waiting to see what the Securities and Exchange Commission (SEC) will require. Based on public comments by Chairman Gensler, the SEC is looking at existing frameworks and standards, in particular the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Therefore, KPMG is advising clients not to wait until the SEC issues disclosures and to utilize TCFD to develop procedures to collect appropriate data for upcoming climate-related disclosure requirements.

Question #4: Is finance getting involved with the operations side for reporting on climate?

Ms. Dougherty: KPMG's research on the Canadian cities reporting according to TCFD shows that finance is included from the beginning to help build out the climate disclosures.

- **Climate-Related Financial Reporting**

Ms. Gilliam introduced the climate session from [topic B](#) by thanking the members for providing comments and edits. She noted that staff is developing a catalog of generally accepted accounting principles (GAAP) that preparers and users of federal financial reports can use as a reference tool when accounting for and reporting impacts from climate-related events and climate-related financial risks. This staff educational paper is not an authoritative pronouncement and does not change or modify existing GAAP.

Question 1 – Do members agree with the project plan to publish the staff educational paper on February 15, 2022?

Members did not discuss this question.

Question 2 – Do members have any final technical edits for the Staff Educational Paper: *Generally Accepted Accounting Principles Applicable to Climate-Related Financial Reporting*?

Members reviewed the introduction and scope section. Staff will update the introduction section with the scope information.

Members reviewed the topics portion of this document. As a result of Board deliberations, staff will remove references to definitions and update paragraph references to include context and a connection to climate. Staff will also change the topic titled "arrangements" to "other." Lastly, staff will remove the following topics from the document: social insurance, tax expenditures, sustainability reporting, and social insurance in management's discussion and analysis (MD&A).

The meeting adjourned for lunch.

- **Omnibus Concepts Amendments**

Ms. Valentine introduced the concepts omnibus discussion from [topic C](#) of the briefing materials. Ms. Valentine noted that both she and Ms. Gilliam had worked on topic C.

Ms. Valentine noted that the Board last reviewed the draft *Omnibus Concepts Amendments* ED at the June 2021 meeting. During the June meeting, the Board continued to deliberate on the amendments to paragraphs 68 and 69 in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, to update note disclosures and MD&A concepts. The members agreed to several edits to the draft ED.

The members also agreed to rescind SFFAC 3, *Management's Discussion and Analysis*, in its entirety.

Ms. Valentine noted that it is common practice for standard setters to develop their conceptual framework before developing the related standards. However, in this instance most of the standard-based language for developing MD&A resides in SFFAC 3 rather than in Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*. Staff recommends exposing both the updated MD&A concepts and updated MD&A standards together so as not to create a void in the guidance since SFFAC 3 would be rescinded with the proposed omnibus.

Question 1 – Are the proposed concept amendments sufficient to guide the Board in developing standards for note disclosures and MD&A?

Ms. Valentine reviewed several suggested edits to the draft ED that members had provided prior to the meeting:

- One member asked staff to consider incorporating the proposed guidance in paragraph 68D of the note disclosures concepts into the proposed MD&A concepts.
- One member asked staff to ensure that the context of the Required Supplementary Information was included in the proposed amendments to SFFAC 2, paragraph 69.
- Two members asked staff to review paragraphs 7A and 7B for consistency with the changes to the summary.
- The members also asked staff to review the document for consistency throughout the sections.
- The members also agreed to a few additional edits.

Question 2 – Does the Board approve the *Omnibus Concepts Amendments* ED?

Ms. Valentine noted that staff is concurrently drafting an ED for MD&A standards. Once the Board approves the updated draft *Omnibus Concepts Amendments* ED, staff will wait to expose the document until the MD&A standards ED is ready for release. Then both proposals will be released for public comment together.

The Board noted that it would like to review an updated draft after staff incorporates the edits discussed at the meeting into the document. Staff noted that the plan was to bring a pre-ballot draft ED to the Board for review once the MD&A standards draft ED was also ready for pre-balloting. The members agreed with staff's plan.

- **Management's Discussion and Analysis**

Ms. Gilliam introduced [topic D](#), the draft MD&A ED, by thanking the members for providing comments and edits. She noted that the Board has been deliberating MD&A standards since June 2019. Before developing the proposed standards, the Board developed 11 MD&A objectives and the MD&A vision framework. Between January and March 2021, staff conducted a pilot with 17 agencies that tested the MD&A objectives and framework to develop streamlined sample MD&As. Sixteen users then reviewed the streamlined MD&A samples against the MD&A objectives and framework. This provided feedback for members to develop the proposed MD&A standards.

At the August 2021 Board meeting, members agreed that MD&A standards should be broad based to provide a holistic perspective, define terms to help users better understand the content/context, and be organized by themes.

Question 1 – Do members have any comments or suggested revisions to the draft MD&A ED?

Due to the time constraint, Ms. Gilliam started the discussion with a review of the definitions. She noted that staff would consolidate edits received on *What is the Board Proposing*; *How Would this Proposal Improve Federal Financial Reporting*; and the *Scope* sections. Staff would then present the updates in the next MD&A ED draft. Members agreed to change the title to “terms.”

Definitions

Staff will update the financial position definition by considering alternatives to the word “status,” such as account or balance. Staff will include budgetary resources, with explanation in the basis for conclusions, because it is a measure of financial position for the federal government environment. Staff will also reference concepts that define financial position.

Staff will edit the financial condition definition to reference concepts that define financial condition.

Staff will update the key performance challenges and achievements definition by changing the title to *Key Performance Achievements and Challenges* and referencing operating performance concepts to distinguish from basic performance reporting

Staff will update the guidance on significance by moving it from the definition section to the *Presenting Information in MD&A* theme. Staff will change “meaningful” to “relevant” and provide an explanation instead of a definition. The explanation will refer to the vision framework to help users understand the context of significance, set guidance for parameters, and emphasize that significance is a matter of professional judgment. Mr. Savini, assistant director, recommended that staff review SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, for previous

due process completed by the Board on “significance.” The Board agreed and suggested including examples in implementation guidance.

Themes

Staff will move the theme *Information Presented in MD&A* before the *Presenting Information in MD&A* theme and remove the *Financial Condition* theme. Staff will merge the financial condition standards into the *Presenting Information in MD&A* theme.

Adjournment

The Board meeting adjourned at 4:45 p.m.

Attachment 1



Introduction to Environmental, Social & Governance

FASAB Board Meeting

December 14, 2021

INTRODUCTION TO ESG

With you today



Corinne Dougherty

Audit Partner
KPMG IMPACT
Contact: cdougherty@kpmg.com



[KPMG IMPACT: Your ESG solution](#)
[Measure, report and assure ESG data](#)

Agenda



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1

What is ESG?

2

ESG reporting and frameworks

3

Regulatory landscape

4

ESG Journey

5

The Role of Finance

01

What is ESG?

What is ESG?

ESG refers to a framework to integrate environmental, social and governance risks and opportunities into a firm's strategy to build long-term financial sustainability and value creation.



Environmental

- Conservation of the natural world:
- Climate change and emissions
 - Air and water pollution
 - Biodiversity
 - Deforestation
 - Energy efficiency
 - Waste management
 - Water scarcity



Social

- Consideration of people and relationships:
- Customer satisfaction
 - Data protection and privacy
 - Gender and diversity
 - Employee engagement
 - Community relations
 - Human rights
 - Labor standards



Governance

- Standards for running an organization:
- Cyber data breaches
 - Bribery and corruption
 - Executive compensation
 - Lobbying
 - Political contributions
 - Whistleblower schemes



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5

WHAT IS ESG?

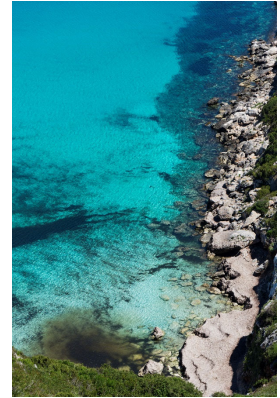
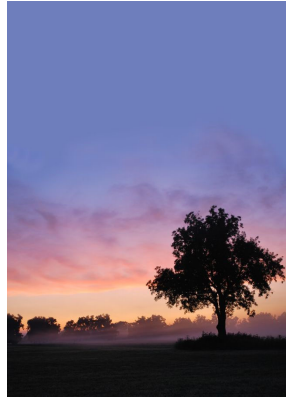
Why ESG now?



¹ Source: KPMG International, [Me, my life, my wallet 2020](#)

Climate is what you expect, weather is what you get

- Weather is short-term changes in the atmosphere, climate describes what the weather is like over a long period of time
- Climate is often looking at averages of precipitation, temperature, humidity, sunshine, wind and other measures of weather that occur over a long period of time



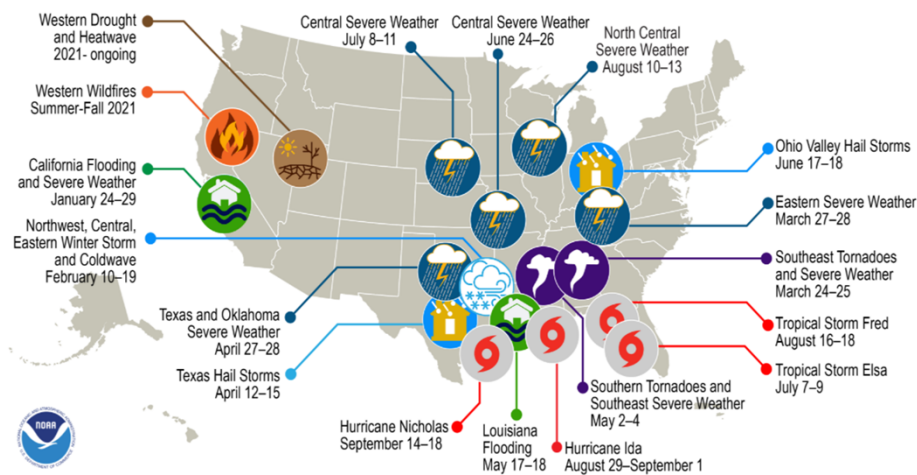
Source: National Centers for Environmental Information

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7

Climate disasters in the US

U.S. 2021 Billion-Dollar Weather and Climate Disasters



Source: National Centers for Environmental Information

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8

Climate change is driving a market transformation

- The planet has warmed 1.1 degrees Celsius since the 19th century due to human activities. Warming of 1.5 degrees is projected.¹
- With new commitments made by India, Russia, Brazil, Saudi Arabia, Australia and others, **at least 90% of the world's economy is now signed up to net-zero targets** — that figure was less than 30% one year ago.²
- Net Zero commitments will drive a **fundamental reorientation of our economies**, with infrastructure, real assets, investments and patterns of consumption requiring an overhaul.
- Banks, insurers and capital markets are expected to drive action now to a far greater extent than ever before.
- Through the Glasgow Financial Alliance for Net Zero (GFANZ), US\$130 trillion of private capital has been committed to net zero. Clean finance can now play a critical role in driving, or stopping, activity.
- **The shift to net zero is the next great industrial revolution and businesses that seize the opportunity are expected to thrive — those that don't, may not.**



Source:

1. IPCC Climate Change 2021 (www.ipcc.ch/report/ar6/wg1/)

2. PM: Glasgow Climate Pact keeps critical 1.5C global warming goal alive - GOV.UK (www.gov.uk)

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9

Climate in the news

Media insights from
[ClimateInsights.kpmg](https://climateinsights.kpmg)

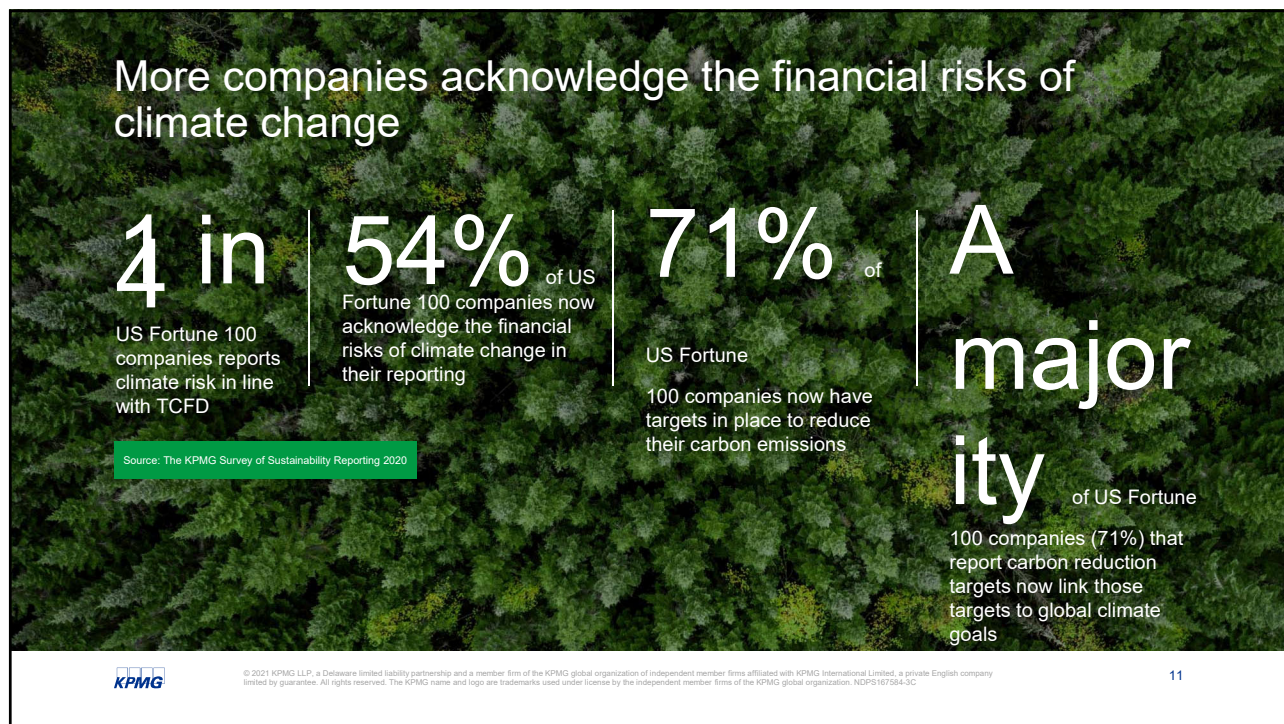
An interactive platform that visualizes data and insights related to worldwide news and social media coverage of climate change.

Designed to help the global community understand more about climate topics, and provide media and website owners with live, shareable visual content.



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10



02 ESG reporting and frameworks

Leading ESG guidance and reporting frameworks

A set of core first and second generation initiatives, frameworks, and guidance examples are outlined below

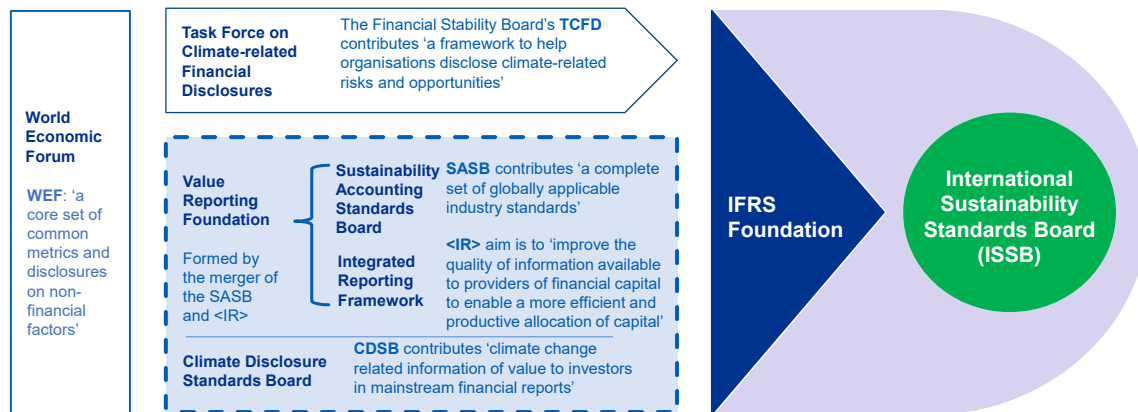
GRI	Value Reporting Foundation (VRF)		TCFD	WEF	CDP
Global Reporting Initiative	SASB Sustainability Accounting Standards Board	<IR> Integrated Reporting Framework	Task Force on Climate-related Financial Disclosures	World Economic Forum: ESG Metrics	Carbon Disclosure Project
<ul style="list-style-type: none"> Early, broadly accepted methodology to homogenize sustainability reporting - periodically updated to improve disclosure quality & meet sector specific needs Reporters identify their material focus areas and tailor reporting to cover those topics GRI provides E, S and G topic level disclosures for material focus areas, which include both qualitative and quantitative disclosures 	<ul style="list-style-type: none"> Modeled on the Financial Accounting Standard Board (FASB) - aims to create a focused, standardized reporting framework tailored to corporate needs The global economy is divided in 77 sub-sectors - For each sub-sector material topics were identified and topic specific metrics were developed Rapidly growing support among investors and corporations alike 	<ul style="list-style-type: none"> <IR> framework includes an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term. 	<ul style="list-style-type: none"> TCFD requires entities to consider and assess risk & opportunities poised by Climate Change to the business and its operations Analysis is forward looking, covering strategic and tactical considerations, as well as the quality of Governance and Management Institutional asset managers are beginning to expect (but not yet require) TCFD analysis 	<ul style="list-style-type: none"> ESG metrics incorporating leading practices from current reporting frameworks Core and expanded metrics to report on ESG performance and track their contributions towards the SDGs Developed in coordination with the Big Four accounting firms 	<ul style="list-style-type: none"> Non-profit organization for companies and other organization to submit and disclose details of their environmental impacts – typically GHG emissions and water Companies are asked to populate surveys, which capture details of emissions scope and scale, and ambitions to modify and manage emissions Submissions are scored for completeness, transparency, and planned mitigations. Scored survey materials are shared via a searchable, public-facing database

As ESG-related flows continue to increase, companies must integrate ESG into their policies and procedures. The noted initiatives, frameworks, and guidance offer a starting point for building and evidencing integration.

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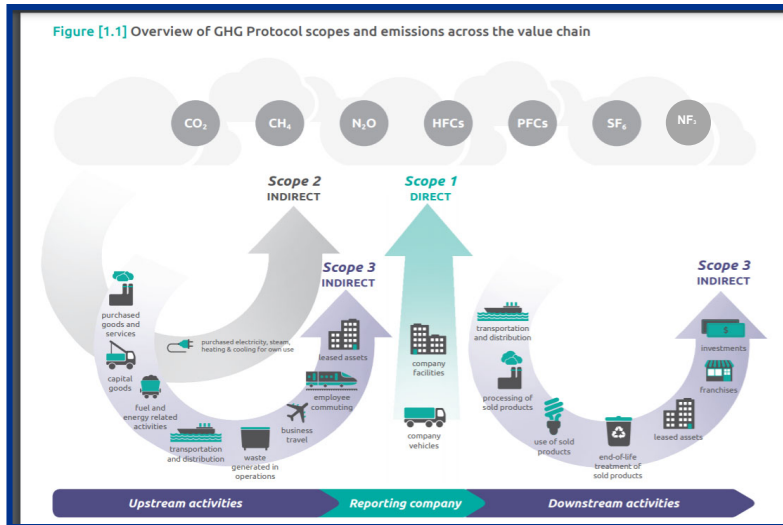
13

International Sustainability Standards Board



— Resources consolidated into the IFRS Foundation

Greenhouse Gas Emissions Scope



Source: Greenhouse Gas Protocol

Scope 1, direct GHG emissions (Owned/Leased)

Emissions from sources that are owned or controlled by the entity.

Scope 2, electricity indirect GHG emissions (Energy)

Emissions from the generation of purchased electricity consumed by the entity.

Scope 3, other indirect GHG emissions (Business Travel)

Emissions that are a consequence of the activities of the entity, but that occur from sources not owned or controlled by the entity.

GHG Protocol Standards

Policy and Action Standard

GREENHOUSE GAS PROTOCOL

Policy and Action Standard

An accounting and reporting standard for estimating the greenhouse gas effects of policies and actions

The GHG Protocol Policy and Action Standard provides a standardized approach for estimating the greenhouse gas effect of policies and actions

Source: Greenhouse Gas Protocol

Mitigation Goal Standard

GREENHOUSE GAS PROTOCOL

Mitigation Goal Standard

An accounting and reporting standard for national and subnational greenhouse gas reduction goals

The GHG Protocol Mitigation Goal Standard provides guidance for designing national and subnational mitigation goals and a standardized approach for assessing and reporting progress toward goal achievement

Project Protocol

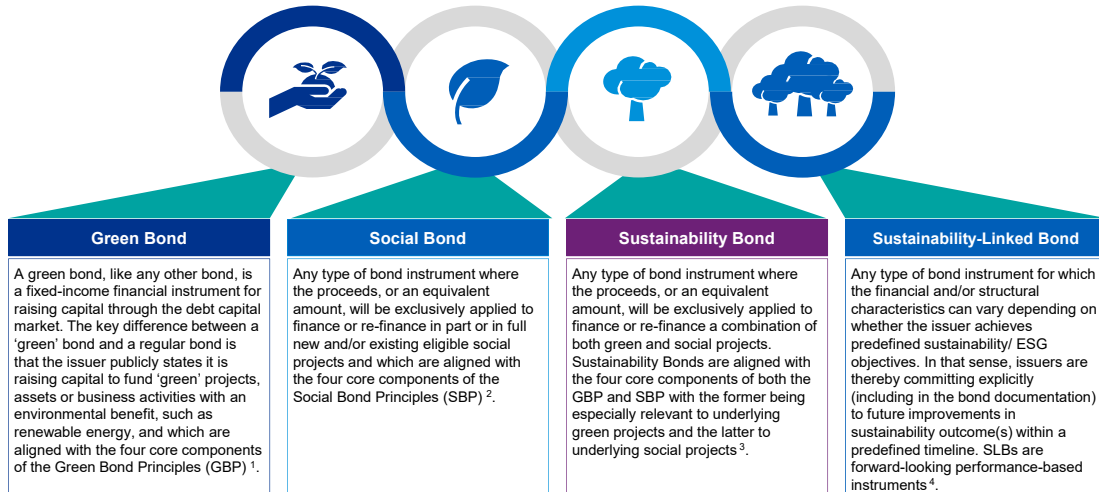
The Greenhouse Gas Protocol

The GHG Protocol for Project Accounting

The GHG Protocol for Project Accounting is the most comprehensive, policy-neutral accounting tool for quantifying the greenhouse gas benefits of climate change mitigation projects

What are green, social, sustainability (GSS) and sustainability-linked bonds (SLB)?

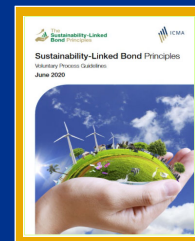
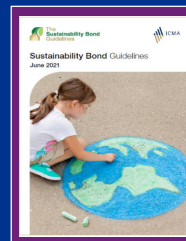
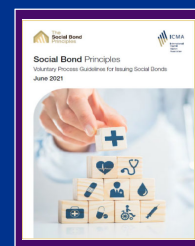
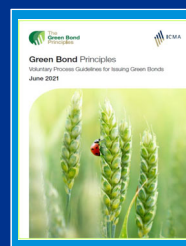
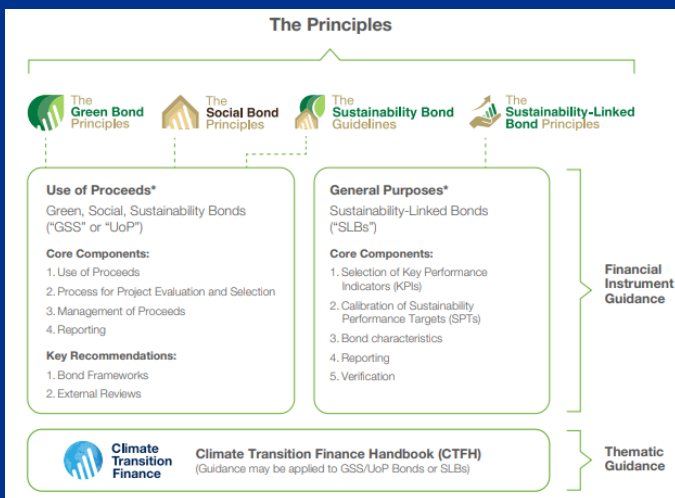
Standard bonds with a bonus “green” and/or “social” benefits feature



1. ICMA Group, *Green Bond Principles June 2021*
 2. ICMA Group, *Social Bond Principles June 2021*

3. ICMA Group, *Sustainability Bond Guidelines June 2021*
 4. ICMA Group, *Sustainability-Linked Bond Principles June 2020*

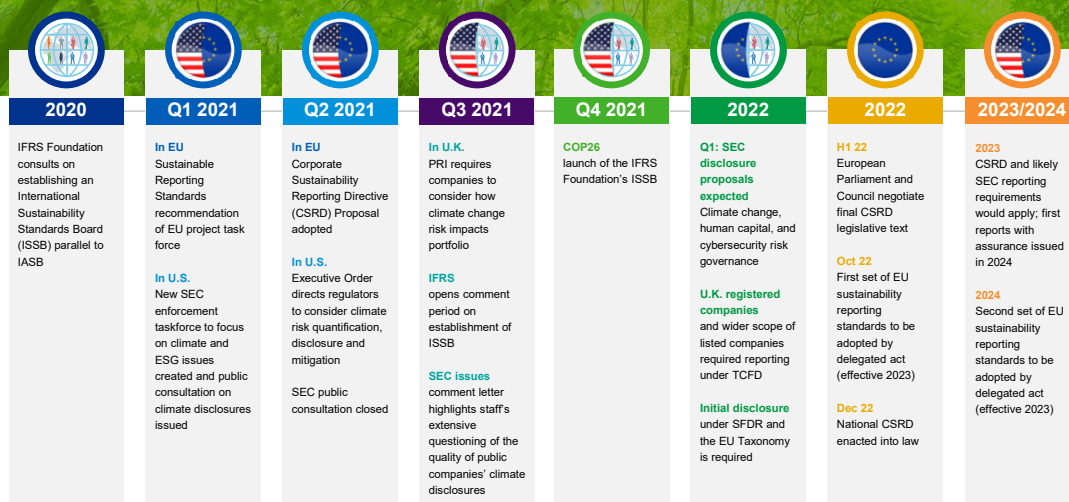
Principles published by International Capital Markets Association (ICMA)



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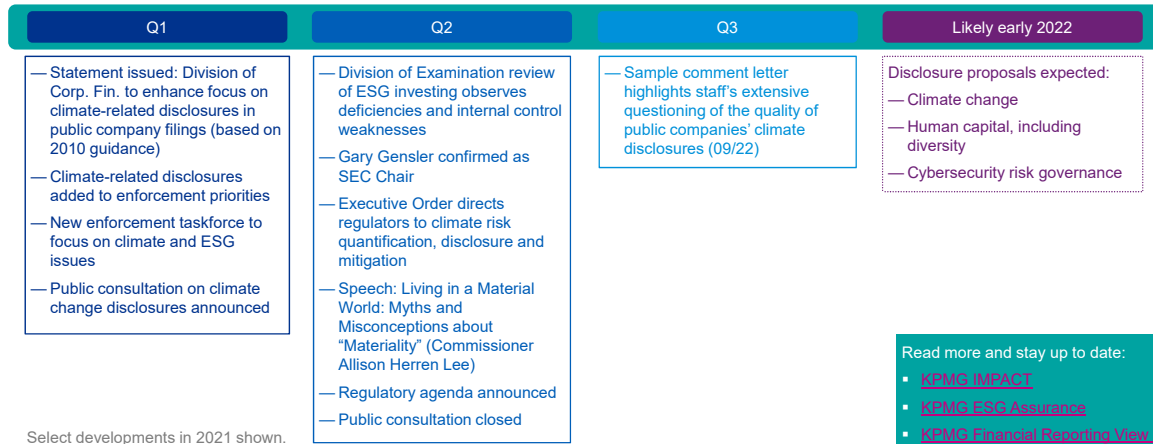
Regulatory landscape

Global ESG regulation points to 2024

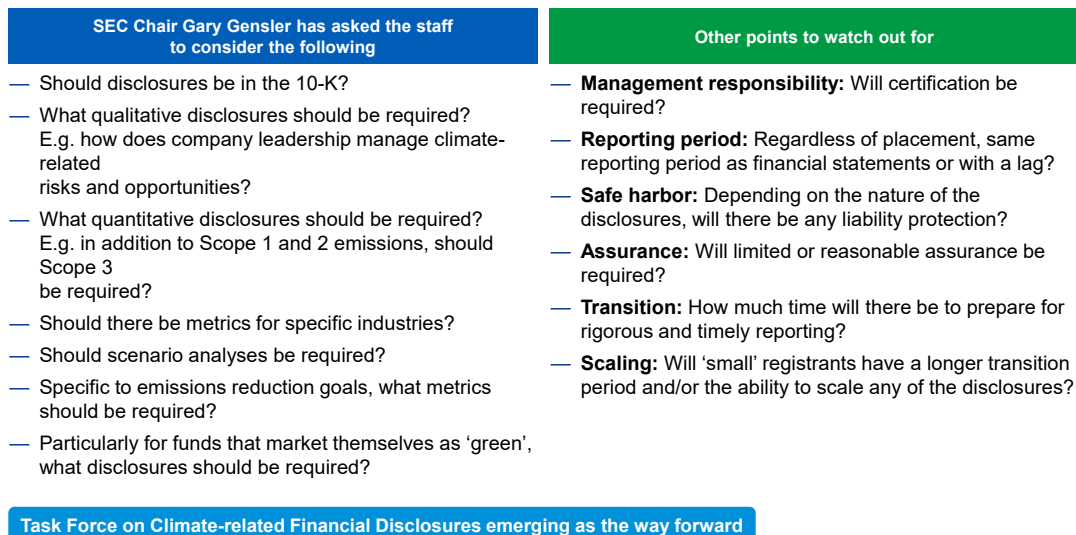


SEC developments happening at pace

Latest news: SEC staff questions quality of climate disclosures



SEC climate proposals likely early 2022



EU proposal: Corporate Sustainability Reporting Directive (CSRD)

To which companies will it apply?

- Large companies that meet two of the following three criteria:
 - > 250 employees;
 - > €40M turnover (revenue);
 - > €20M total assets.
- Listed companies other than micro-companies. Small and medium-sized listed companies would have an additional three years to comply.

How many companies are in scope?

- Approximately 49,000, covering > 75% of total EU companies' turnover (revenue).

What ESG reporting is required?

- In relation to the areas already reported on, additional disclosures about:
 - Strategy, governance and resilience;
 - Information that is material to 'other stakeholders' as well as investors (so-called 'double materiality');
 - Process of selecting material topics for stakeholders;
 - Forward-looking information, including targets and progress thereon;
 - Intangibles (social, human and intellectual capital);
 - Reporting in line with sustainable finance disclosure regulation (SFDR) and the EU taxonomy regulation.



When will it apply?

- Standards would be developed by a new European standard setter (under delegated authority from the Commission).
- October 2022: first set of standards adopted by the Commission (draft standards available mid-2022).
- By December 1, 2022: adoption of EU Directive in member states legislation.
- 2023: First period for which companies would need to report under the standards.

Is third-party assurance mandatory?

- Mandatory (limited level of assurance).
- Limited assurance is usually a negative form of expression stating that no matter has been identified by the practitioner to conclude that the subject matter is materially misstated.

Where will information be reported?

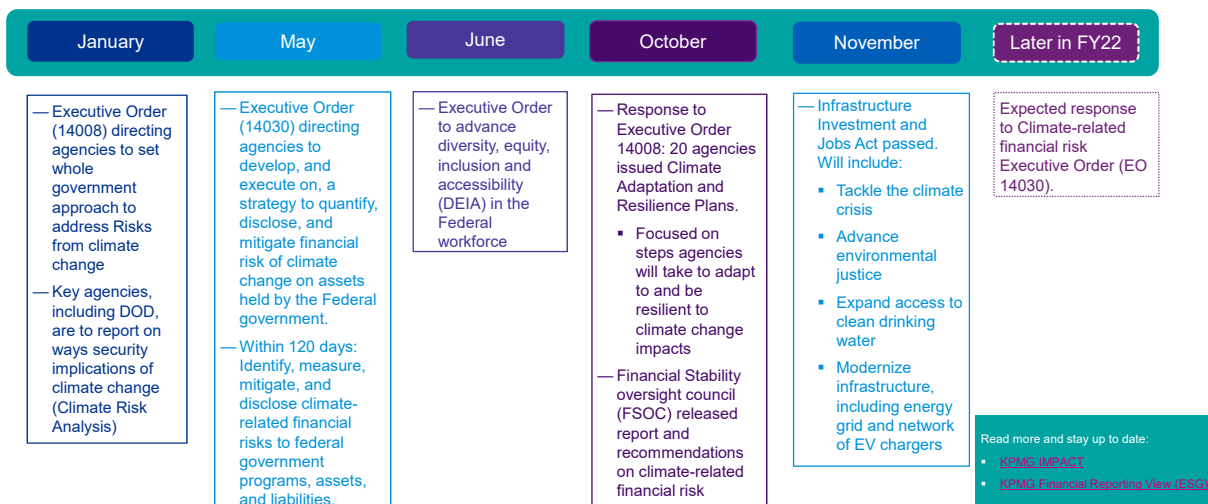
- In the management report, which would include separate sustainability statements.
- The management report would need to be published together with the financial statements in a single document (paper or electronic).

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23

Federal ESG developments happening at pace

Biden Administration has identified climate and racial equity as 'immediate priorities'.



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24

04

The ESG Journey

The ESG reporting journey



Establish

Alignment of material ESG topics to standards/metrics for reporting and benchmarking current disclosures to peers and industry-leading practices. Understanding of existing ESG reporting strategy and establish ESG program governance



Assess

Assessment of current capabilities, including ESG reporting strategy, reporting structure, controls, data management, and governance as measured against industry-leading practices / target operating models to identify gaps



Design

Development of ESG reporting program and target operating model, including processes, controls, technology, and organizational structure based on results of the assessment and gap analysis



Implement

Execution of the designed ESG reporting target operating model, including activating training and communications



Sustain

Continuous monitoring of ESG reporting requirements, processes, and assessing ongoing operating effectiveness of controls to enhance reporting processes and technology and providing ongoing training



Assure

External assurance over ESG reporting and data

Common challenges and pain points



Confusion about different frameworks and standards



Getting buy-in from management and employees



Disconnect between ESG goals and business strategies



Establishing materiality



Frustration with disparate ratings & rankings



Too much time and resources spent on data collection and verification



No process and controls in place on data gathering and validation, and reporting



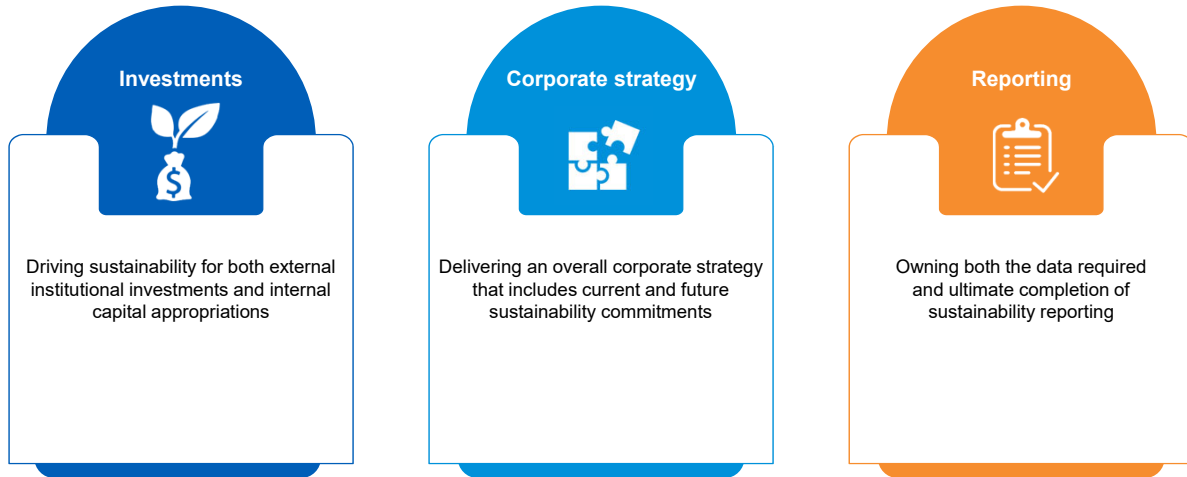
Specificity of information disclosed within the report

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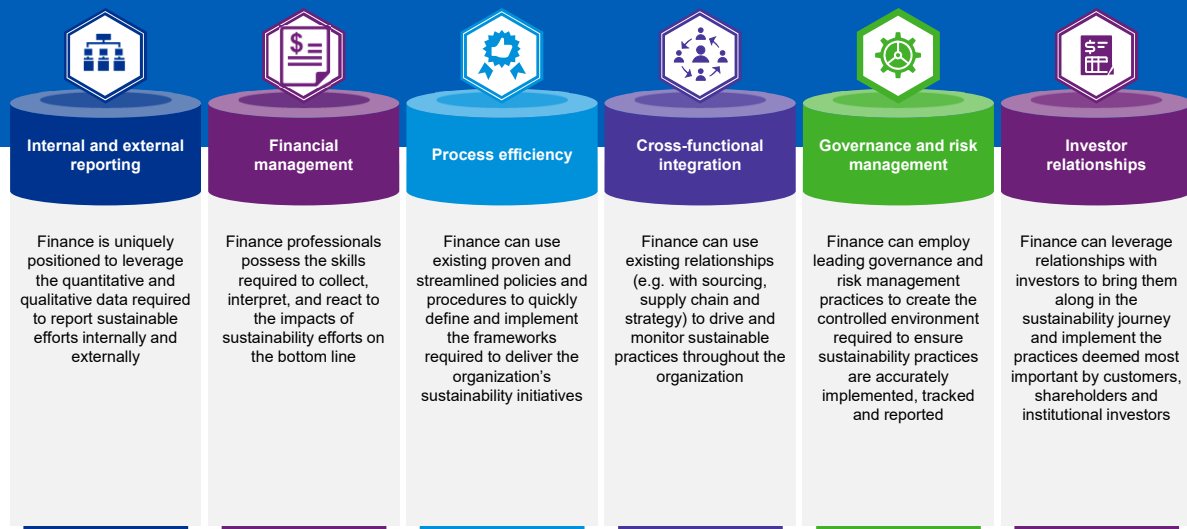
The role of Finance

What role can finance play in driving sustainability?

There are three key areas where finance can drive the organization's sustainability agenda:



Finance can leverage existing skills and frameworks to drive the organization's sustainability agenda



ESG stakeholders

Leading organizations are creating new executive positions dedicated to overseeing ESG initiatives



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31

Questions