



Federal Accounting Standards Advisory Board

December 2, 2020

Memorandum

To: Members of the Board
From: Robin M. Gilliam, Assistant Director
Through: Monica R. Valentine, Executive Director
Subject: Climate Impact and Risk Reporting – **Tab G**¹

MEMBER ACTIONS REQUESTED:

Please review the technical plan and respond to staff questions by **December 10, 2020**.

MEETING OBJECTIVES

To discuss and approve the proposed technical plan for a climate impact and risk reporting project.

BRIEFING MATERIAL

You may electronically access all of the briefing material at <http://www.fasab.gov/board-activities/meeting/briefing-materials/>.

The briefing materials include this memorandum, the proposed technical plan and

Appendix A – Federal Accounting for Climate-Related Events slide deck.

NEXT STEPS

Staff requests Board members to approve the project and proposed technical plan so that staff may proceed to the next steps. The next steps will include staff performing research to determine if existing standards support accounting and reporting for climate impact and risk reporting and recommending additional accounting and financial reporting guidance for Board consideration.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

Questions for the Board:

- 1) Do members agree with pursuing a project on climate impact and risk reporting in accordance with the proposed technical plan?
- 2) Do members agree with staff's next steps to research if existing standards support accounting and reporting for climate impact and risk reporting and to develop recommendations for Board consideration?
- 3) Do members wish to share any other observations or views regarding the project or technical plan?

MEMBER FEEDBACK

Please contact Ms. Gilliam by email at gilliamr@fasab.gov with a cc to Ms. Valentine at valentinem@fasab.gov by **December 10, 2020** if you have any questions, comments, or wish to schedule a teleconference meeting to discuss,

Climate Impacts and Risk Reporting Project FY 2021 Technical Plan

Project Objective: The project objective is to determine if FASAB's existing standards support accounting and reporting for climate impact and risk reporting.

Accounting and Financial Reporting Issues:

The project will considering the following issues:

1. Additional guidance for recognition, measurement, and disclosure criteria that specifically addresses impacts to the reporting entity's property, plant, and equipment (PP&E) after an extreme weather event occurs.
2. Additional guidance for recognition, measurement, and disclosure criteria that specifically addresses adaption and resilience activities needed to protect the condition² of the reporting entity's PP&E prior to future extreme weather events.
3. Additional guidance to determine if adaption and resilience necessary to maintain the reporting entity's PPE's condition is a contingent liability or deferred maintenance and repairs.

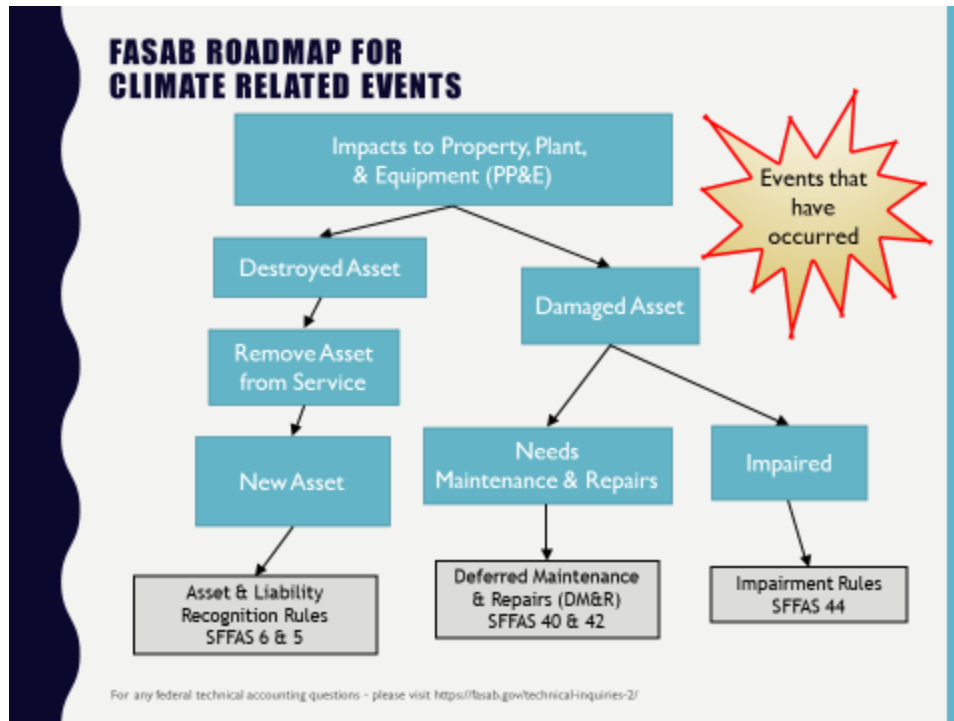
Current Developments:

There is a significant amount of interest in learning how the federal government accounts for climate impact and risk reporting.

For example, in early 2018, members of the U.S. Global Change Research Program (USGCRP), Federal Adaption and Resilience Group (FARG) reached out to staff to learn if accounting standards existed for climate change. They were concerned because they did not see anything in agency financial reports that specifically spoke to the risks agencies' faced to their property, plant and equipment (PP&E) resulting from extreme weather events. As a result, staff worked with FARG members to develop a tool box of FASAB standards that provide a roadmap on how to account for the federal government's reaction to address damage/destruction PP&E sustained after an extreme weather event. Over the past year staff has presented this roadmap and tool box to at

² Appendix E: Consolidated Glossary defines "Condition" as: The physical state of an asset. The condition of an asset is based on an evaluation of the physical status/state of an asset, its ability to perform as planned, and its continued usefulness. Evaluating an asset's condition requires knowledge of the asset, its performance capacity and its actual ability to perform, and expectations for its continued performance. The condition of a long lived asset is affected by its durability, the quality of its design and construction, its use, the adequacy of maintenance that has been performed, and many other factors, including: accidents (an unforeseen and unplanned or unexpected event or circumstance), catastrophes (a tragic event), disasters (a sudden calamitous event bringing great damage, loss, or destruction), and obsolescence.

least a dozen agencies and organizations, such as the Institute of Internal Auditors (IIA), Interagency Forum, Association of Chartered Certified Accountants (ACCA), and hundreds of participants.³ The following is a slide of the roadmap staff discusses during their presentations.



In addition to the interest experienced because of staff's outreach efforts, reports, such as the following, are released regularly concerning climate impact and risk reporting.

- *Report on Effects of A Changing Climate to the Department of Defense*, Office of the Under Secretary of Defense for Acquisition and Sustainment, January 2019.
- *The Implications of Climate Change for Financial Stability*, the Financial Stability Board, November 23, 2020.
- *Managing Climate Risk in the U.S. Financial System*, Market Risk Advisory Committee of the U.S. Commodity Futures Trading Commission (CFTC). September 9, 2020, cites the following in table 7:

³ See Appendix A for Federal Accounting for Climate-Related Events slide deck

Table 7.1: Sample of Leading Voluntary Frameworks

CDP	CDP issues an annual global questionnaire that collects information on climate change and other sustainability issues to help organizations measure and manage these risks and opportunities.
Climate Disclosure Standards Board (CDSB)	The CDSB Framework provides guidance on how and what to report on climate and other environmental issues in a mainstream annual report.
Global Reporting Initiative (GRI)	The GRI Standards outline how and what to report regarding the material economic, social, and environmental impacts, such as climate change of an organization on sustainable development. The GRI Standards can be used in sustainability reports, as well as in annual or integrated reports. It is oriented at a broad range of stakeholders.
Integrated Reporting (IR)	The International Integrated Reporting Council (IIRC) has developed a reporting framework that explains how an organization can report on the value it creates for itself and others. Reporting on the basis of the framework results in an integrated annual report or in a separate integrated report, and the main audience is providers of financial capital.
Sustainability Accounting Standards Board (SASB)	SASB's Standards guide reporting on financially material environmental, social and governance issues by means of indicators (called metrics) and disclosures for 77 industries. Its main use is intended to be in the communications to investors, such as the annual report, and it has the objective of informing financial stakeholders.
Task Force on Climate-Related Financial Disclosures (TCFD)	Established by the Financial Stability Board, the TCFD developed voluntary, consistent climate-related financial disclosures, building on existing disclosure regimes to develop a singular, accessible framework. The TCFD developed four widely adoptable core recommendations on climate-related financial disclosures of universal applicability to organizations across sectors and jurisdictions, divided into these topics: governance, strategy, risk management, and metrics and targets.

- *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting*
Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP (formerly, the Climate Disclosure Project), CDSB, GRI, IIRC (International Integrated Reporting Council), and SASB, facilitated by the Impact Management Project, World Economic Forum, and Deloitte. September 2020.

The CFTC report also makes a direct recommendation to FASAB: **Recommendation 7.9** of [Chapter 7: *A Closer Look at Climate Risk Disclosure*, page 101] states:

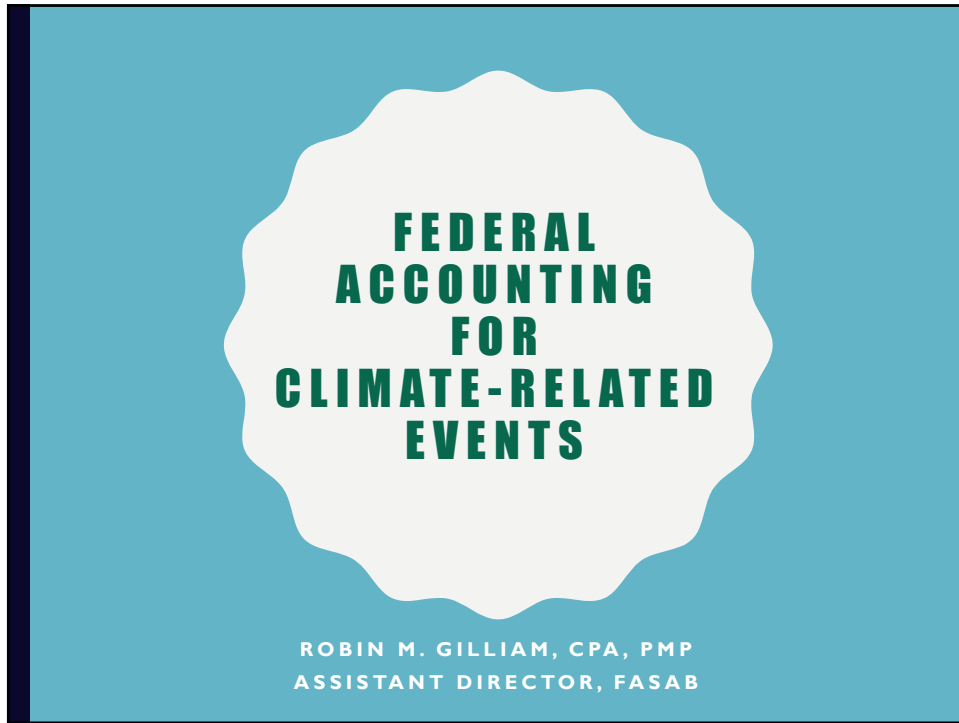
The United States should direct the Federal Accounting Standards Advisory Board (FASAB) to study and pilot the development of climate-related federal accounting standards, disclosure procedures and practices for U.S. government departments, agencies and administrative units.

In Conclusion:

While staff outreach educates agencies about the accounting standards that are available to recognize and report impacts to PP&E after a climate related event, there is no guidance for how to recognize and report agency adaption and resilience work done in response to GAO's reports and recommendations. Therefore, the Board's approval of the project will address CFTC's recommendation 7.9 and allow staff to begin research to develop recommendations for proposed updates to federal accounting standards, or lower level guidance, in support of climate impact and risk reporting.

Work Plan:

Board Meetings	Topics to Be Considered
December 2020	Consider project plan for Board approval
January – July 2021	Research and develop recommendations – No Board action Recruit detailee to assist with research.
August 2021	Review staff analysis and recommendations Gain Board approval for next steps



DISCLAIMER:

CURRENT VIEWS EXPRESSED ARE THOSE OF THE SPEAKER AND ARE UNOFFICIAL

This unofficial material is presented for discussion purposes only and is not intended to reflect authoritative views of the FASAB or its staff.

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WHAT YOU WILL LEARN ABOUT

1. Climate-related impacts
2. FASAB's tool box and road map
3. Management's discussion & analysis (MD&A) for forward-looking climate adaption & resilience information

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GOVERNMENT RECOGNITION OF CLIMATE-RELATED IMPACTS

Per Congress request
January 2019 DOD delivered the
Report on Effects of a Changing Climate to the Department of Defense

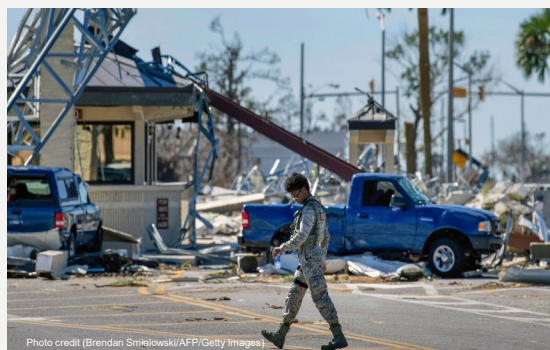


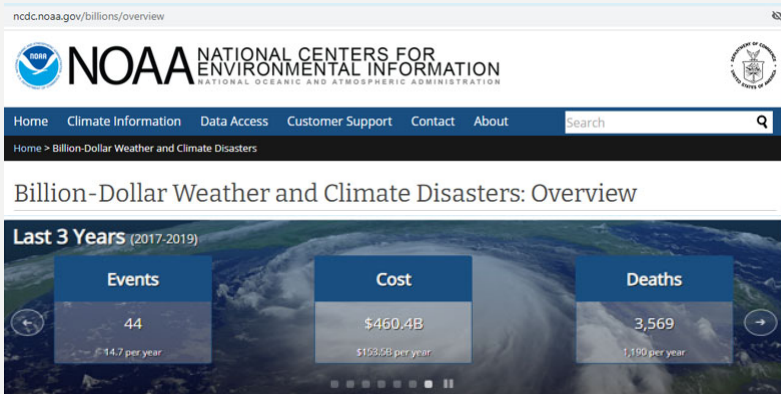
Photo credit (Brendan Smislowki/AFP/Getty Images)

**Tyndall Air Force Base, Florida, aftermath
of Hurricane Michael, Oct. 12, 2018.**

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FINANCIAL IMPACT OF CLIMATE-RELATED EVENTS



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WHAT WILL A CLIMATE RELATED EVENT COST YOUR GOVERNMENT AGENCY OR ORGANIZATION &



HOW WILL YOU ACCOUNT FOR THE IMPACT?

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FASAB TOOL BOX FOR CLIMATE-RELATED EVENTS



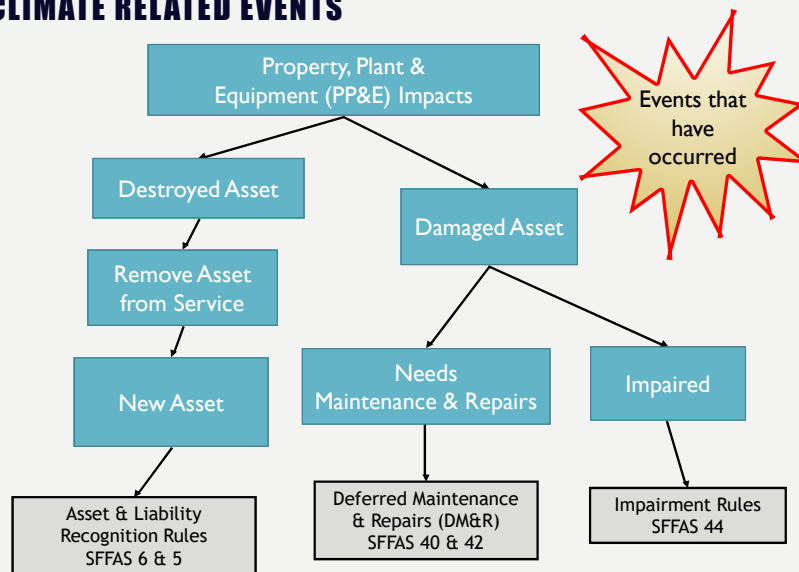
Includes:

- 1) Asset Types, &
- 2) Generally Accepted Accounting Principles (GAAP)
 - Statements of Federal Financial Accounting Standards (SFFAS)

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FASAB ROADMAP FOR CLIMATE RELATED EVENTS



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THREE TYPES OF FEDERAL PROPERTY, PLANT, & EQUIPMENT (PP&E)

SFFAS 6 - Accounting for property, plant & equipment

1. **General property, plant, & equipment (G-PP&E)** are assets used to provide general government services or goods;

SFFAS 29 – Heritage Assets and Stewardship Land

2. **Heritage Assets** are unique PP&E that provide historical or natural significance; cultural, educational or artistic (e.g., aesthetic) importance; or, significant architectural characteristics; and



3. **Stewardship Land** is land other than that included in general PP&E, such as forests, recreational beaches and parks, and land used for wildlife and grazing.



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EXAMPLE: ACCOUNTING FOR THE IMPACT OF HURRICANE FLORENCE AT CAMP LEJEUNE

Damage from Hurricane Florence on Marine Corps Base Camp Lejeune, Sept. 15, 2018.



Photo credit: Camp Lejeune FB page

Hurricane Florence impacted North Carolina's Marine Corps Base Camp Lejeune and Marine Corps Air Station New River with periods of strong winds, heavy rains, flooding of urban and low lying areas, flash floods and coastal storm surges.

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Camp Lejeune estimated **\$3.6 BILLION** to restore the base



- 70 buildings need major repairs
- 130 Buildings need to be replaced
- Not included – 100s of on-base homes need repair

<https://www.wunc.org/post/hurricane-florence-repairs-camp-lejeune-will-cost-billions-and-more-big-storms-are-likely>

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DESTROYED CAMP LEJEUNE HEADQUARTERS



The main headquarters was a 375,000 square feet building with 12+ wings, originally built in 1940 as a hospital & will eventually be

- torn down,
- replaced, and
- moved back off the waterfront, due to the climate-related rising water issue.

SFFAS 6

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DESTROYED RAILROAD AT CAMP LEJEUNE



Photo credit: <https://cfl12.com/news/local/hurricane-damaged-rail-trestle-repairs-complete-usmc-benefits>

Damaged wooden structure rail trestle that crosses Webb Creek between Camp Lejeune and Morehead City **making it difficult to move equipment on and off base.**

SFFAS 6

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ACCOUNTING FOR G-PP&E: REMOVING AN ASSET FROM SERVICE

SFFAS 6 – includes standards for how to book a removal:

Questions to consider in determining a gain or loss:

- Asset cost
- Accumulated depreciation
- Any income from salvage/scrap

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NEW ASSET: CAMP LEJEUNE RAILROAD BRIDGE ACROSS WEBB CREEK



- \$2 million
- will withstand future flood and hurricane events.
- = climate adaptation and resilience

SFFAS 6 provides standards to account for

- capitalization for new assets that replaced destroyed assets
- includes construction work in process.

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REVIEW:

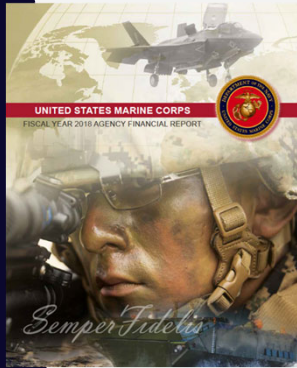
SFFAS 6 – ACCOUNTING FOR PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment (PP&E) consists of tangible assets, including land, that meet the following criteria:

- estimated useful lives 2 years or more;
- not intended for sale in the ordinary course of operations; and
- acquired or constructed with the intention of being used, or being available for use by the entity.

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UNITED STATES MARINE CORPS
FISCAL YEAR 2018 AGENCY FINANCIAL REPORT

Note 8. General Property, Plant, and Equipment, Net

As of September 30 (Amounts in thousands)	Depreciation/ Amortization Method	Service Life	Unmodified 2018		Net Book Value
			Acquisition Value	(Accumulated Depreciation/ Amortization)	
Major Asset Classes					
Buildings, Structures, and Facilities	SL	30, 35, or 45	\$ 18,955,466	\$ (7,363,734)	\$ 11,591,732
Software	SL	2-5 or 10	1,036	-	1,036
General Equipment	SL	Various	20,832,534	(12,153,209)	8,679,325
Construction-in-Progress	N/A	N/A	257,007	257,007	257,007
Total General PP&E			\$ 40,046,043	\$ (19,516,943)	\$ 20,529,100

108 United States Marine Corps

Impact of Hurricane Florence

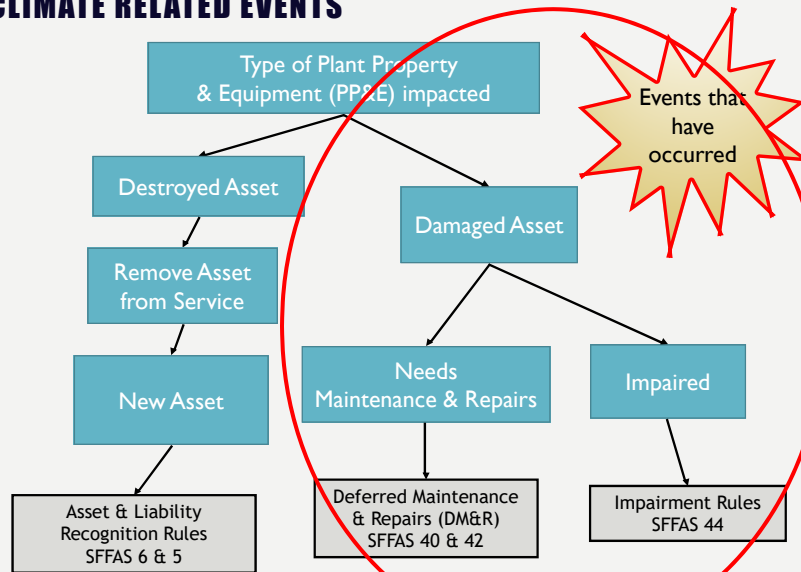
The USMC has GPP&E, heritage assets, and stewardship land located at Camp Lejeune, North Carolina, and MCAS Cherry Point, North Carolina. In September of 2018, Hurricane Florence caused damage to property at

110 United States Marine Corps

these two USMC installations. The USMC is still in the process of assessing the total impact of the damage to its property and the costs for any repairs. Any necessary adjustments to property records and the costs of repairing and/or disposing USMC property will be recognized in future periods as either expenses or capital improvements in accordance with SFFAS No. 6.

https://media.defense.gov/2018/Nov/16/2002063985/-1/-1/1/USMC_FY2018_AFR.PDF

FASAB ROADMAP FOR CLIMATE RELATED EVENTS



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DAMAGED ASSET: MAINTENANCE & REPAIRS CAMP LEJEUNE HOUSING



<https://www.jdnews.com/photogallery/NC/20190206/NEWS/206009981/PH/1>

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REVIEW: SFFAS 40 & 42: DEFERRED MAINTENANCE & REPAIRS STANDARDS

Two main Statements concerning DM&R:

• **SFFAS 40** - *Definitional Changes Related to Deferred Maintenance and Repairs: Amending Statement of Federal Financial Accounting Standards 6, Accounting for Property, Plant, and Equipment*

• **SFFAS 42** – *Deferred Maintenance and Repairs: DM&R, Amending SFFAS 6, 14, 29 & 32*

DM&R standards require the federal government to be accountable to citizens for the proper administration and stewardship of its assets.

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REVIEW: DM&R

SFFAS 40 & 42

- **Maintenance and repairs**
 - Which were NOT performed when they were scheduled and will be delayed for a future period; and
- **Types of activities only** directed toward returning G-PP&E to an acceptable condition such as
 - preventive maintenance;
 - replacement of parts, systems, or components; and
 - any other activities needed to preserve or maintain the asset.
- **Different estimation measurement methods for each PP&E type:**
 - G-PP&E,
 - Heritage assets, and
 - Stewardship land.

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REVIEW: DM&R

SFFAS 42: REPORTING FOR DIFFERENT ASSETS

SFFAS 42 - APPENDIX B – EXAMPLE, PAGE 27

- **G-PP&E: DM&R reported on BS & RSI**
- **Heritage assets & stewardship land not reported on the balance sheet, but estimates for any DM&R are required supplemental information to the financial statements.**

The following illustration # 3 presents information on major asset classes experiencing material amounts of deferred maintenance and repairs with an emphasis on active versus inactive/excess assets.

ILLUSTRATION 3 - EMPHASIS ON ACTIVE vs. INACTIVE and EXCESS BY ASSET CLASS

Deferred Maintenance and Repair Costs
(Dollars in Millions)

Asset Category / Class	20x2 Ending Balance DM&R	20x2 Beginning Balance DM&R
Active:		
General PP&E:		
Structures	\$14,375	\$14,000
Aircraft	53	5
Missiles	139	58
Ships	1,058	937
Subtotal - general PP&E active	15,625	15,000
Stewardship Land	500	500
Heritage Assets	0	500
Subtotal - all active	16,125	16,000
Inactive and Excess:		
General PP&E:		
Buildings	2,500	2,500
Structures	1,875	1,000
Subtotal - general PP&E - inactive and excess	4,375	3,500
Total	\$20,500	\$19,500

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IMPAIRED ASSETS: CAMP LEJEUNE EDUCATION & TRAINING BUILDING



SFFAS 44

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REVIEW: **SFFAS 44: ACCOUNTING FOR IMPAIRMENT OF G-PP&E REMAINING IN USE**

A building should be **impaired** and a **loss recognized** if a building **suffered significant and permanent decline in its service utility** due to:

1. Climate related damage or
2. DM&R becomes so great it has lost service potential below its “acceptable condition” level.

SFFAS 44 standards can help Camp Lejeune determine if and how to book a loss for a change in service from a training and education building to, for example, only an equipment storage building due to Hurricane Florence damage; i.e., change in function or purpose.

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ACCOUNTING FOR CLIMATE ADAPTION & RESILIENCE

- Activity occurring before climate related events to protect assets.
- **Making changes** in processes, practices, and structures to resist potential damages from **climate related events**.

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WHAT WE DON'T KNOW

FASAB staff researching

What standards support adaption and resilience estimates/activities

- SFFAS 5 – a contingent liability?
- SFFAS 6 – re capitalizing asset improvement?
- SFFAS 40/42 - DM&R – re preserving/maintaining asset?
- New GAAP that is needed?



Your situation can help with our research – partner with your CFO to submit a TI:

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WHAT WE DO KNOW: CLIMATE RELATED EVENT DISCUSSIONS MAY BE FORWARD-LOOKING INFORMATION

SFFAS 15 - MANAGEMENT'S DISCUSSIONS & ANALYSIS (MD&A)

- MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends.
 - Such as plans for climate adaption and resilience.
- MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.
 - Such as weather related events
- **And plans for how to address**

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FORWARD LOOKING INFORMATION

On October 11, 2018, as a result of Hurricane Michael, Tyndall Air Force Base in Panama City, Florida sustained a direct hit which resulted in extensive damage across the base. Because of the hurricane, the base remains partially closed with limited operations at this time. The Air Force is still in the process of evaluating the financial impact of the damage to the base and its operations and is unable to quantify the extent of the damage currently.

Tyndall Air Base, FL



<https://www.npr.org/2019/02/12/693549647/tyndall-air-force-base-to-be-rebuilt-as-air-base-of-the-future>

Offutt Air Force Base, NE



<https://www.airforcetimes.com/news/your-air-force/2019/03/18/floodwaters-overwhelm-one-third-of-offutt-nine-aircraft-evacuated/>

https://www.afm.af.mil/Portals/64/documents/financial_statements/FY%202018%20-%20Force%20Agency%20Financial%20Report.pdf?ver=2018.11.15.151421.490

WHAT WE KNOW: THE VALUE OF A DOLLAR

According to the National Institute of Building Sciences:
Natural Hazard Mitigation Saves: 2018 Interim Report:

**every \$1 invested in disaster
adaption & resilience**



**can save \$3 to \$11
depending on the disaster**



<https://www.nibs.org/page/mitigationsaves>

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RESOURCES: CLIMATE ADAPTION SAVES

- National Institute of Building Sciences Issues *New Report* on the Value of Mitigation
 - <https://www.nibs.org/news/381874/National-Institute-of-Building-Sciences-Issues-New-Report-on-the-Value-of-Mitigation.htm>
- Global Center on Adaptation: A Global Call for Leadership on Climate Resilience
 - <https://gca.org/global-commission-on-adaptation/report>
- Working Group III Contribution to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change
 - https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_full.pdf
- 2019 UN Emissions Gap Report
 - <https://wedocs.unep.org/bitstream/handle/20.500.11822/30797/EGR2019.pdf?sequence=1&isAllowed=y>

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ARE YOUR OPERATING PLANS & MISSION GOALS TAKING CLIMATE ADAPTION & RESILIENCE INTO CONSIDERATION?



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NOT SURE HOW TO ACCOUNT FOR CLIMATE RELATED EVENTS THAT OCCURRED OR ADAPTION & RESILIENCE – LET FASAB HELP

Complete a technical inquiry for federal technical accounting questions – at <https://fasab.gov/technical-inquiries-2/>

- FASAB staff will research technical questions to
 - provide appropriate GAAP;
 - present recommendations to update GAAP through our Technical Clarifications of Existing Standards project for Board deliberation; or
 - recommend developing new GAAP for Board deliberation

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WHO IN YOUR ORGANIZATION WOULD BENEFIT FROM THIS FREE TRAINING?

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Please send us names and let them know that you
Recommend this training



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WEBINAR Q & A



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CONTACT INFORMATION

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