



# Climate-Related Risk in the Financial Statements

AGA DC Chapter Annual Training

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# Speakers



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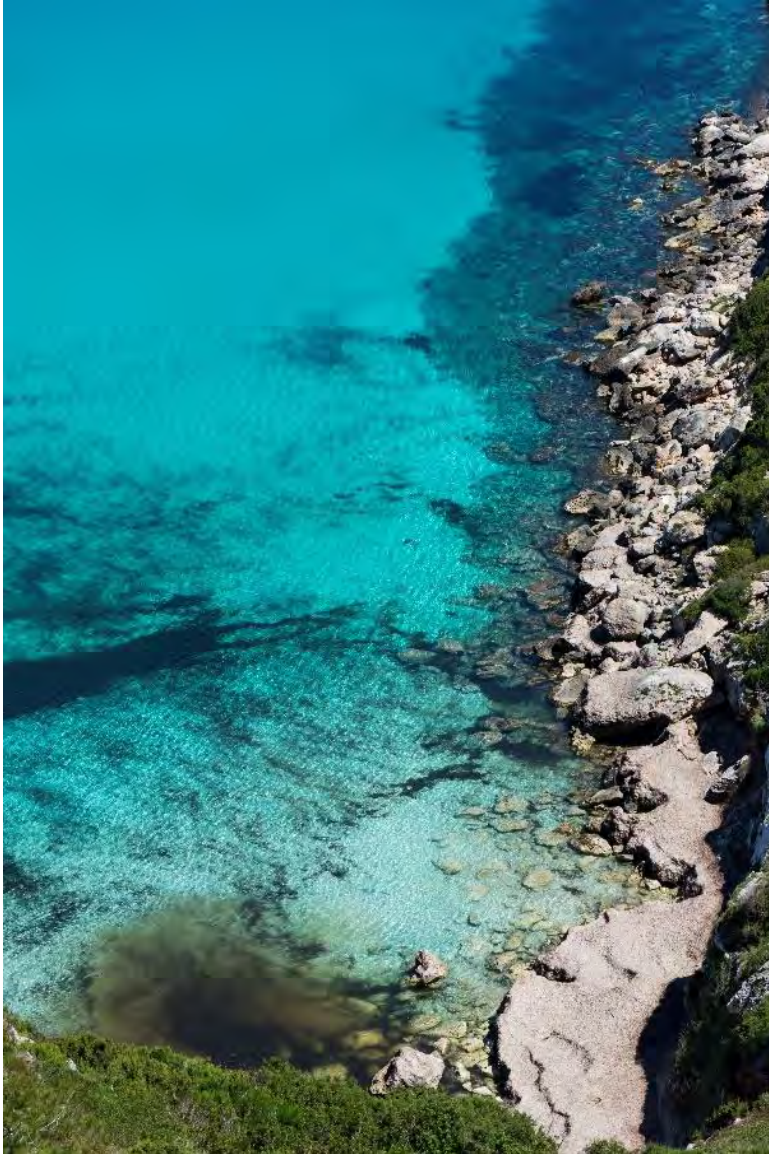
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# FASAB Disclaimer

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- Views expressed are those of FASAB staff.
- The Board expresses its views in official publications.

## Polling question #1



Where do you stand when it comes to understanding climate-related financial risk?

- a) I consider myself an expert.
- b) I have a basic understanding.
- c) What is climate-related financial risk?

# What is ESG?

**ESG refers to a framework to integrate environmental, social and governance risks and opportunities into a organization'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

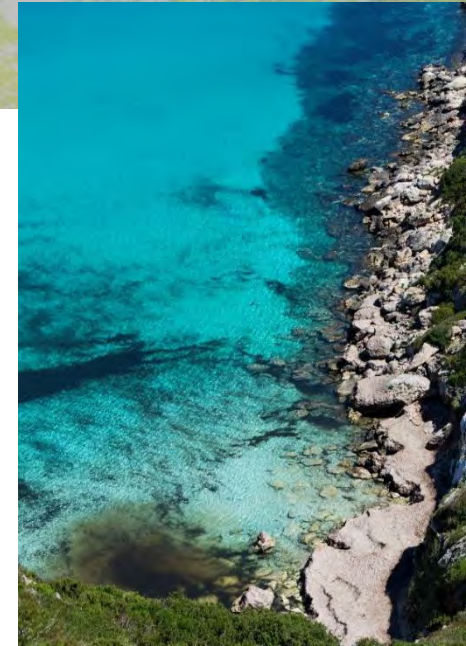
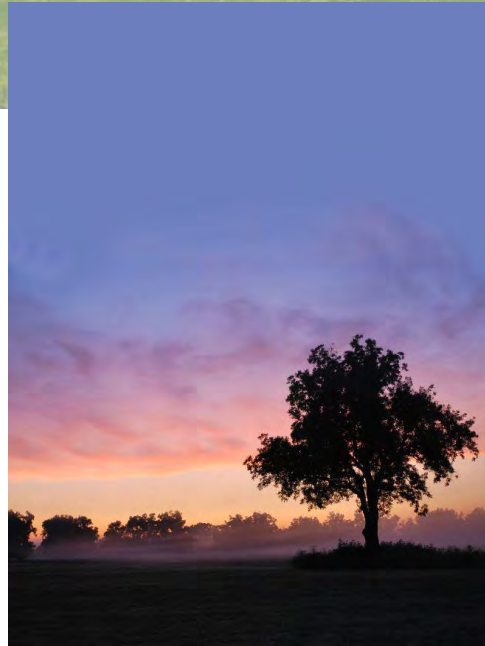
Standards for running an organization:

- Cyber data breaches
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes



# Climate is what you expect; weather is what you get

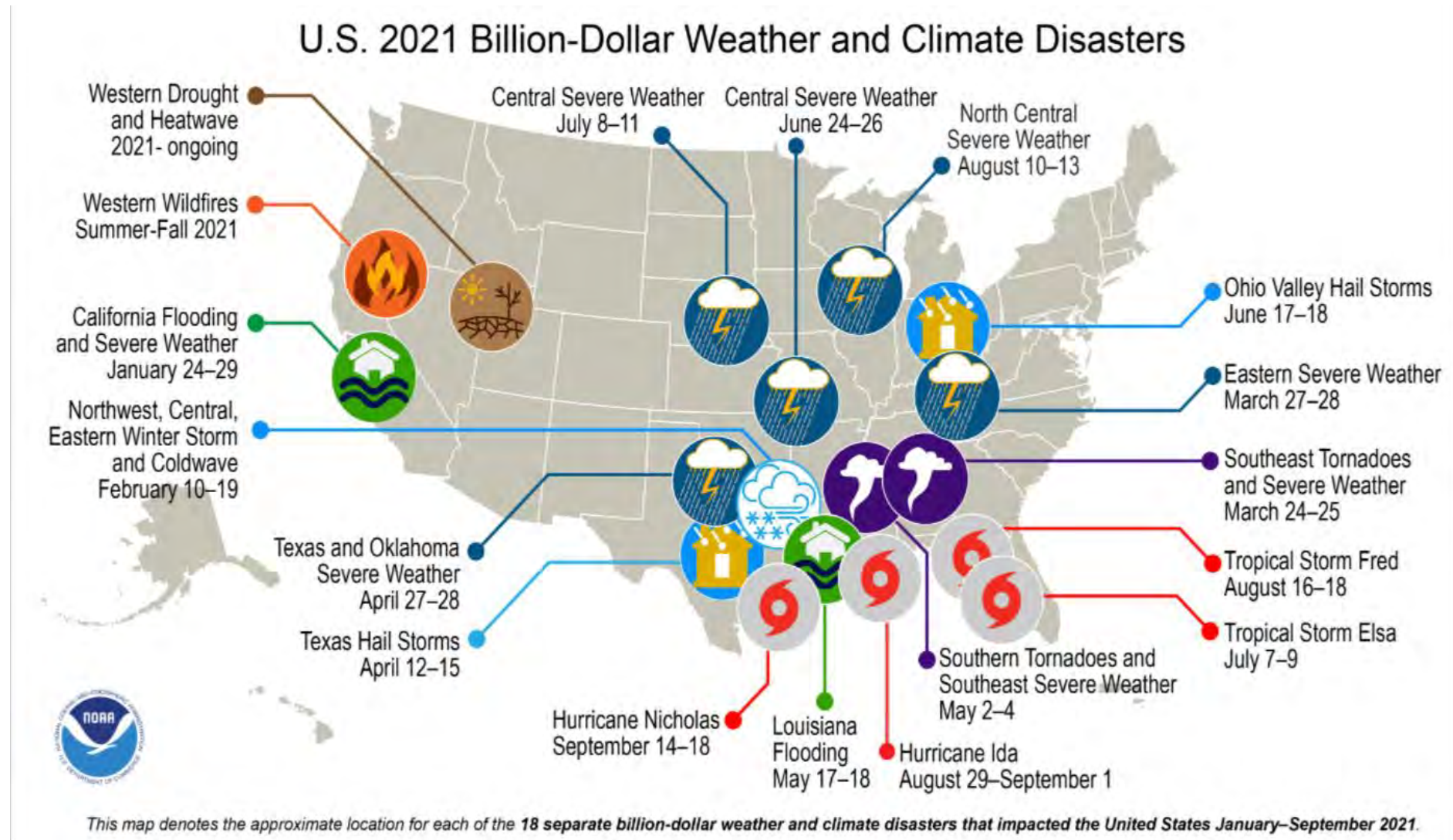
- Weather is short-term changes in the atmosphere; climate describes what the weather is like over a long period of time
- Climate is often looking at averages of precipitation, temperature, humidity, sunshine, wind and other measures of weather that occur over a long period of time



Source: National Centers for Environmental Information



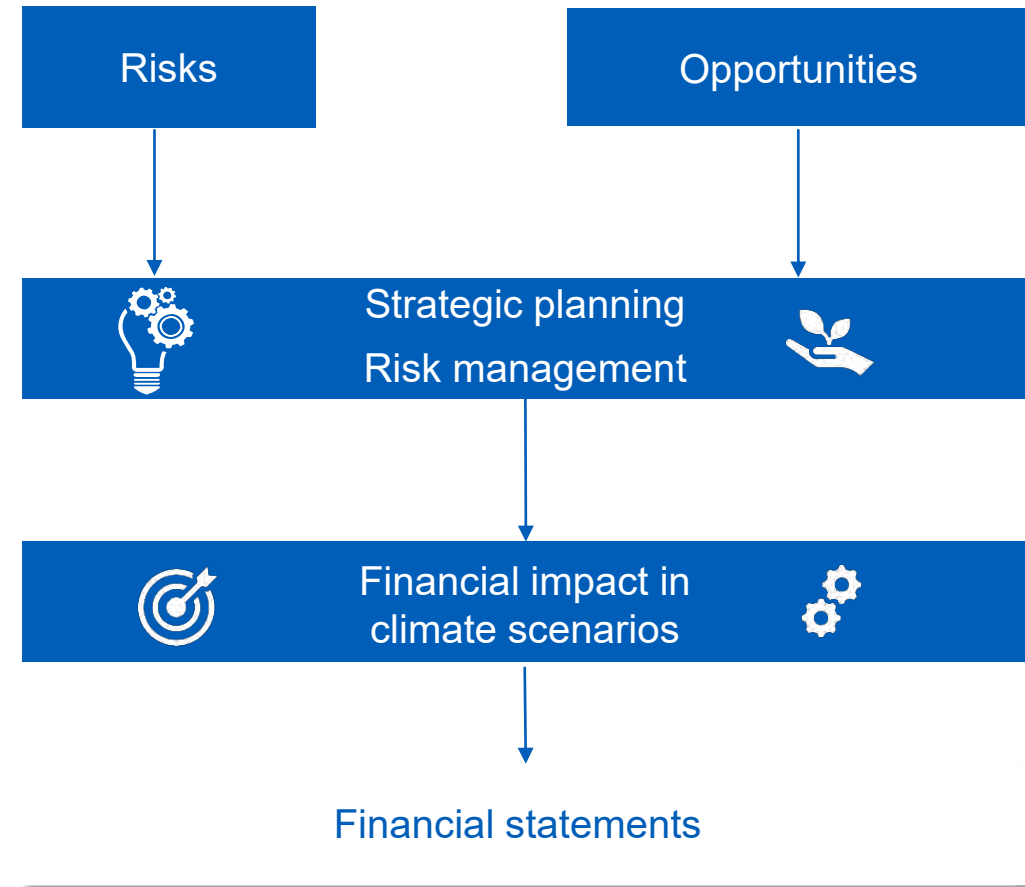
# Climate disasters in the US



Source: National Centers for Environmental Information

All organizations are facing climate-related risks and opportunities and are making strategic decisions in response.

These climate-related risks and strategic decisions could impact the financial statements.





Source: Final report | Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017)



# Types of climate risk

The Task Force for Climate-related Risk (TCFD) has two categories of climate risk.

 <b>Physical risk</b>
Effects of climate risk on the physical environment
Examples: floods, hurricanes, wildfires, drought, rising temperatures and sea levels, changes in weather patterns

 <b>Transition risk</b>
Risks arising from transition to a low-carbon economy
Examples: stranded assets, changing customer behavior, availability of capital, stigmatization of industries

## Polling question #2



Are you familiar with the Task Force on Climate-related Financial Disclosures (TCFD)?

- a) Yes, I am familiar with the TCFD.
- b) I have heard of the TCFD, but I don't know much about it.
- c) It sounds vaguely familiar.
- d) No, I have not heard of the TCFD.



- [KPMG IMPACT](#)
- [KPMG Financial Reporting View \(ESG\)](#)

# Federal climate developments

Biden Administration has identified climate as ‘immediate priority’.

2021

January

- Executive Order (14008) directing agencies to set whole government approach to address Risks from climate change
- Key agencies, including DOD, are to report on ways security implications of climate change (Climate Risk Analysis)

May

- Executive Order (14030) directing agencies to develop, and execute on, a strategy to quantify, disclose, and mitigate financial risk of climate change on assets held by the Federal government.
- Within 120 days: Identify, measure, mitigate, and disclose climate-related financial risks to federal government programs, assets, and liabilities.

October

- Response to Executive Order 14008: 20 agencies issued Climate Adaptation and Resilience Plans.
  - Focused on steps agencies will take to adapt to and be resilient to climate change impacts
- Financial Stability oversight council (FSOC) released report and recommendations on climate-related financial risk

December

- Executive Order on Catalyzing Clean Energy Industries and Jobs through Federal Sustainability.
  - Set goals for achieving net zero for government operations by 2050

2022

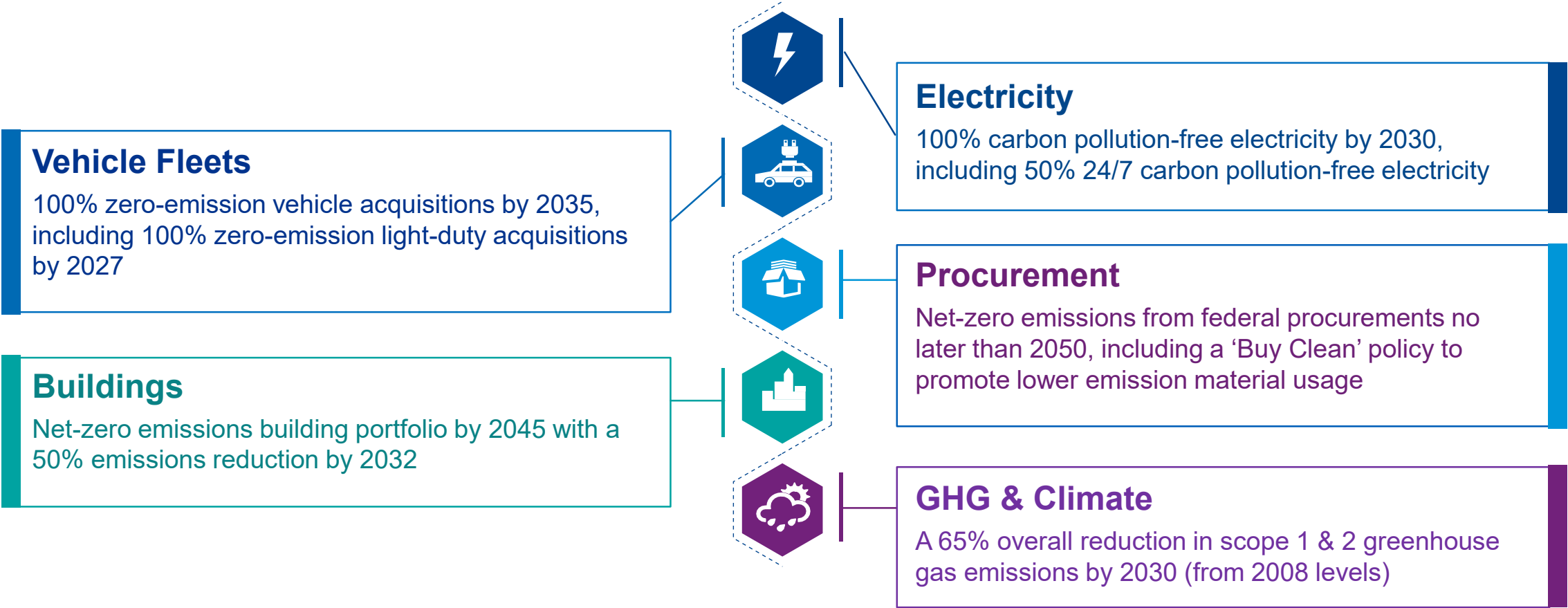
January

- Greenhouse Gas (GHG) Monitoring & Measurement Interagency Working Group formed to help identify and deploy the best available tools and data systems to measure, monitor, report, and verify carbon dioxide, methane, and other GHG emissions and removals.

February

- Army Climate Strategy issued. End state goals include:
  - Achieve 50% reduction in Army net GHG pollution by 2030
  - Attain net-zero Army GHG emissions by 2050
  - Consider the security implications of climate change in strategy, planning, acquisition, supply chain and programming documents and processes.

The *Executive Order on Catalyzing Clean Energy Industries & Jobs Through Federal Sustainability* aims to reach net zero by 2050 with 5 focused mandates and supporting principles

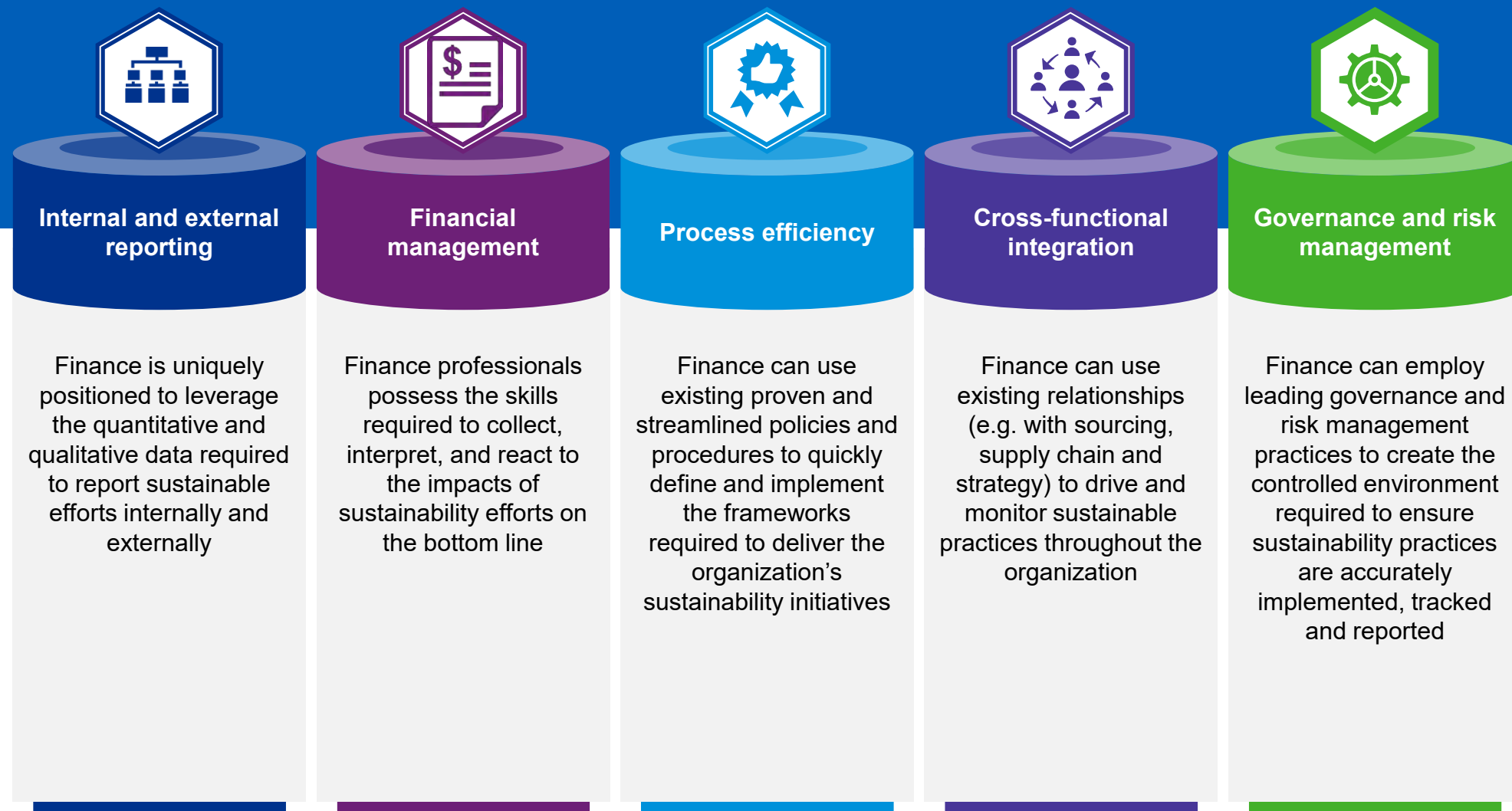


**Principles Shift**

Reengineer operations to establish lower carbon and more resilient infrastructure; build a climate- and sustainability-focused workforce; advance environmental justice and equity; instill principles into cultural and behavioral aspects of agencies



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



# FASAB Active Project: Climate-Related Financial Reporting

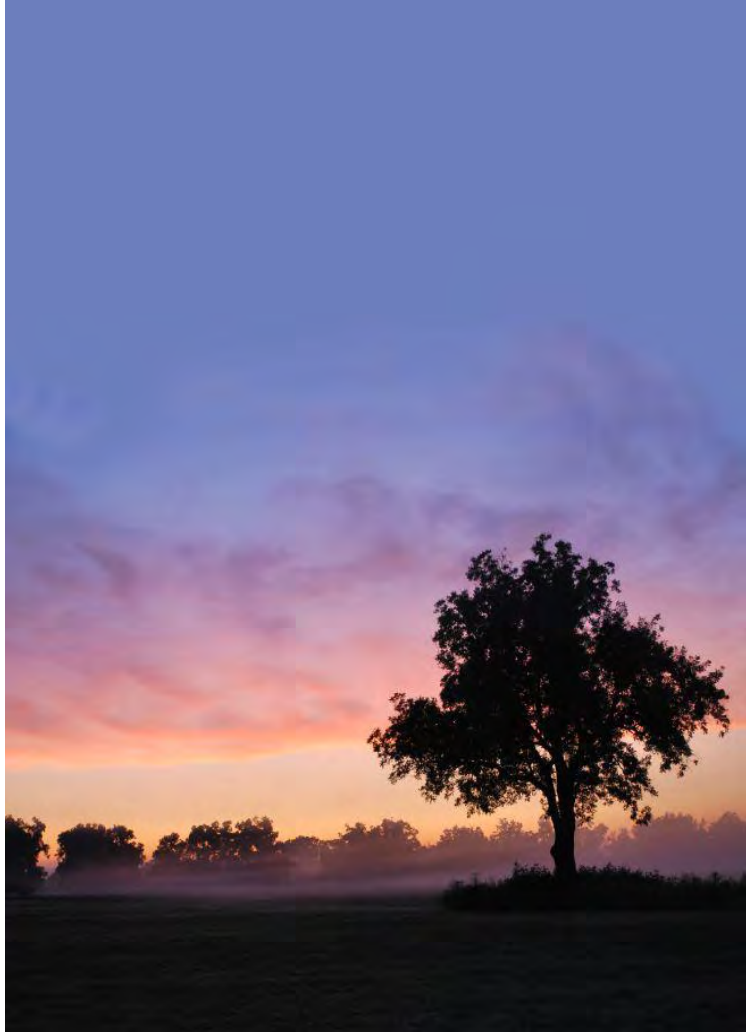
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Phase I - Publish a **non-authoritative** staff paper entitled: *Generally Accepted Accounting Principles Applicable to Climate-Related Financial Reporting*.

- Catalog of existing standards
- Does NOT create or amend standards



## Polling question #3



Has your agency considered the effects of climate-related risk in the financial statements?

- a) Yes
- b) No
- c) Not sure
- d) N/A

# FASAB Active Project: Climate-Related Financial Reporting

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- Phase II - Develop a federal climate-related financial disclosure framework
  - Start with Task Force for Climate-Related Financial Disclosures (TCFD)
  - Review other public standard setters progress
  - Implement a Task Force (if interested please send Robin Gilliam an email)
- Monitor & report to the Board – climate-related financial reporting updates from around the world.



# FASAB Technical Inquiries (TI)

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- Please complete a TI if you need help:
  - applying GAAP for climate-related events that have occurred, or
  - reporting climate-related financial risk that could possibly occur in the future
- Our technical inquiry page explains:
  - How we can help
  - Who we help
  - What you can expect from the TI process once you submit the new form at <https://fasab.gov/technical-inquiries-2/>

## Polling question #4



Based on the presentation today, will you submit a technical inquiry to FASAB about the affect of climate-related financial risk to your agency?

- a) Yes
- b) No
- c) Not sure
- d) N/A



# Questions





# Appendix



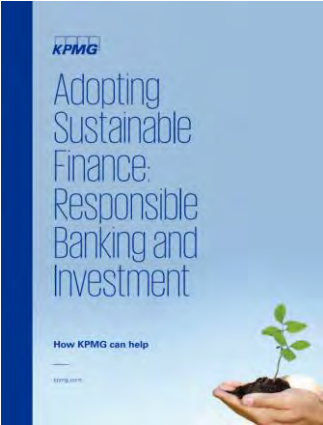
# Handbook: Climate Risk in the Financial Statements

[> Download Here](#)

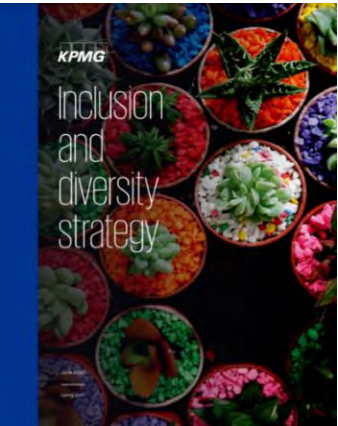
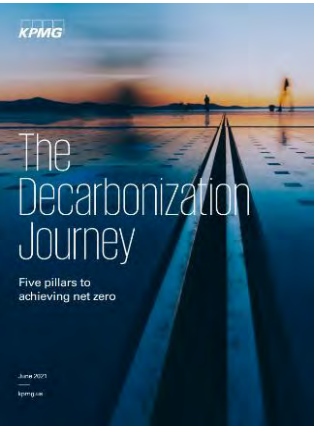
# Select ESG-focused thought leadership



The Role of Finance in ESG



Climate action gains steam in Washington.



ESG for CFOs: What you need to know



The board's role in culture and employee engagement

Click on each thumbnail to view our recent thought leadership.





Thank you



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