INTERNATIONAL

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Standard Guide for Financial Disclosures Attributed to Climate Change[1]

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1. Scope

1.1 *Purpose*—The purpose of this guide is to provide a series of options or instructions consistent with good commercial and customary practice for *climate change*-related disclosures accompanying audited and unaudited financial statements. This guide encourages consistent and comprehensive disclosure of *financial impacts attributed to climate change*.

1.2 *Objective*—The objective of this guide is to determine the conditions warranting disclosure and the content of appropriate disclosure.

1.3 *This international standard was developed in accordance with internationally recognized principles on standardization established in the Decision on Principles for the Development of International Standards, Guides and Recommendations issued by the World Trade Organization Technical Barriers to Trade (TBT) Committee.*

2. Referenced Documents

2.1 *ASTM Standards:*[2]

E2137 Guide for Estimating Monetary Costs and Liabilities for Environmental Matters

E2173 Guide for Disclosure of Environmental Liabilities

E2725 Guide for Basic Assessment and Management of Greenhouse Gases

E3032 Guide for Climate Resiliency Planning and Strategy

2.2 *Financial Accounting Standards Board:*[3]

Accounting Standard Codification Topics 350, 410, 440, 450, 460, 820

2.3 *Governmental Accounting Standards Board:*[4]

Statements 42, 49, 72, 83

2.4 *International Accounting Standards Board:*[5]

IAS 37, IFRS 13

3. Terminology

3.1 *Definitions:*

3.1.1 *asset impairment*—formal devaluation of the book value of an asset, stated for example, in US generally accounting principles in ASC 350, GASB 42.

3.1.2 *climate change*—any change in climate over time whether due to natural variability or as a result of human activity. **Intergovernmental Panel on Climate Change**[6]

3.1.3 *constructive obligation, n*—concept that past practice creates a valid expectation on the part of a third party.

3.1.4 *environmental liabilities, n*—asset retirement obligations, accrued liabilities, commitments, contingencies, and guarantees associated with any natural conditions or man-made incidents, including terrorism, that pose an unacceptable risk to health, safety, property, or the environment that would be the subject of an enforcement action or other legal action. (ASC 410, 440, 450, 460, GASB 49, IAS 37)

3.1.5 *financial impacts attributed to climate change* —material financial impacts on a company's performance, operations, assets, and liabilities attributed to climate change effects, including but not limited to real or expected risks of physical damage to facilities, regulatory costs and incentives, and shifts in the market for products and services (including stranded assets).

3.1.5.1 *Discussion*—In this guide, the short form designations of 'financial impact' and 'impact' are also used to designate this specific concept.

3.1.6 *financial statement(s)*—include, but are not limited to, statements associated with shareholder reporting, periodic reports, registration statements, loans, mergers, acquisitions, or divestitures. *Financial statements* may include statements outside of SEC filings.

3.1.7 *greenhouse effect, n*—the trapping of the sun's warmth in a planet's lower atmosphere, due to the greater transparency of the atmosphere to visible radiation from the sun than to

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[2] For referenced ASTM standards, visit the ASTM website, www.astm.org, or contact ASTM Customer Service at service@astm.org. For *Annual Book of ASTM Standards* volume information, refer to the standard's Document Summary page on the ASTM website.

[3] Available from Financial Accounting Standards Board (FASB) https://www.fasb.org/

[4] Available from Governmental Accounting Standards Board (GASB) https://www.gasb.org/

[5] Available from International Accounting Standards Board, https://www.ifrs.org/

[6] The Intergovernmental Panel on Climate Change (IPCC) https://www.ipcc.ch/

infrared radiation emitted from the planet's surface.

Oxford Languages[7]

3.1.8 *greenhouse gas*—a gas that has been shown through measurement to generate the greenhouse effect and is currently higher in concentration in the atmosphere than it was in the demonstrated atmosphere of 1860, and which includes carbon dioxide, methane, nitrogen trifluoride, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride, amongst others.

3.1.9 *materiality*—the significance of an item to users of a financial statement that considers all relevant and surrounding circumstances. A material item is one that its omission or misstatement is of such a magnitude in the surrounding circumstances that either the judgment of a reasonable person relying on the financial statement would have been changed or influenced by its inclusion or correction, or there is a substantial likelihood that the item, after assessing the inferences, and their significance, drawn from the given set of facts associated with the financial statement, would be viewed as significantly altering the information made available to the investor or shareholder. (For additional information on *materiality*, see Guide E2173.)

3.1.10 *scenario*—a entity's selection and description of a set of guiding assumptions (commonly, GHG level(s) or temperature levels associated with upcoming dates) to enable valuations of forecasted impacts caused by climate change; an entity may select a third-party set of assumptions.

3.1.11 *stranded assets*—an asset that has become obsolete or non-performing, bringing a recent or pending asset impairment (devaluation of the stranded asset). The asset may be obsolete or non-preforming for any reason, including societal, technical, monetary, regulatory, or judicial impediment.

3.1.12 *supply chain*—the sequence of processes involved in the production and distribution of a commodity, for example, raw materials to manufacturers to customers/retail outlets.

3.1.13 *reporting entity*—any business or public agency preparing a financial statement.

3.2 *Acronyms and Other Abbreviations:*

3.2.1 *FASB—US* Financial Accounting Standards Board

3.2.2 *GAAP—US* Generally Accepted Accounting Principles

3.2.3 *SEC—US* Securities and Exchange Commission

4. Significance and Use

4.1 *Uses*—This guide is intended for use on a voluntary basis by a reporting entity that provides disclosure in its financial statements regarding *financial impacts attributed to climate change*. The degree and type of disclosure depends on the scope and objective of the financial statements. This guide is intended to apply to U.S. and international operations at the discretion of the reporting entity.[8] The user should be aware that there may be contractual obligations, court decisions, or regulatory directives that may affect the flexibility in use of this guide. The user should also maintain an awareness of international regulations that may be relevant to disclosures, such as those of the International Accounting Standards Board and International Financial Reporting Standards.

4.2 *Principle:*

4.2.1 The following principles are an integral part of this guide and are intended to be referred to in resolving any ambiguity or dispute regarding the interpretation of financial disclosures regarding *financial impacts attributed to climate change*.

4.2.1.1 *Uncertainty Not Eliminated*—Although a *reporting entity*, as of the time when its financial statements are prepared, may have evaluated the existence and extent of financial impacts attributed to climate change, there remains uncertainty with regard to the final resolution of scientific, technological, regulatory, legislative, and judicial matters, which could affect its financial impacts attributed to climate change. Where, as defined by the reporting entity, such uncertainties cannot be eliminated, the reporting entity shall provide its justification. In addition, the reporting entity shall provide estimates of the risks involved regarding uncertainties. Typically, this is accomplished through the development of reasonable scenarios or ranges to recognize and address uncertainties. While one or more climate change uncertainties may be unforeseeable for any reporting period, once recognized, subsequent reports will include any previous material exclusions. Further, a discovery of significant impediment to the reporting entities stakeholders, as and when discovered by the reporting entity, may require an interim statement.

4.2.1.2 *Comparison with Subsequent Disclosures*—Subsequent disclosures that convey different information regarding the extent or magnitude of the *reporting entity's financial impacts attributed to climate change* should not be construed as indicating the initial disclosures were inappropriate. Disclosures shall be evaluated on the reasonableness of judgments and inquiries made at the time and under the circumstances in which they were made. Subsequent disclosures should not be considered valid standards to judge the appropriateness of any prior disclosure based on hindsight, new information, use of developing analytical techniques, or other factors. However, information on trends between disclosure years may be of value to a user of financial statements.

4.2.1.3 *Not Exhaustive*—Appropriate disclosure does not necessarily mean an exhaustive disclosure. There is a point at which the cost of obtaining information or the time required to gather it outweighs the usefulness of the information and, in fact, may be a material detriment to the orderly preparation of financial statements and the ability of readers to understand the information contained therein. However, all relevant and reasonably ascertainable information should be used to determine the content of appropriate *financial impacts attributed to climate change*.

5. Determining Whether a Disclosure is Warranted

5.1 *Circumstances Associated with Financial Impacts Attributed to Climate Change:*

[7] Oxford Languages https://languages.oup.com/dictionaries/#oed

[8] See for example, Securities and Exchange Commission (SEC), Commission Guidance Regarding Disclosure Related to Climate Change (Release Nos. 33–9106; 34–61469; FR-82), 17 CFR Parts 211, 231, and 241, February 8, 2010.