

## **FMM 04.4 Climate Change Risks and Financial Reporting**

Introducing Environmental, Social and Governance Sustainability (ESG) was discussed in FMM Volume 2 (FMM 02.3) and recognises the need to modernise and align financial management with broader societal goals such as environmental sustainability, social equity and transparent governance.

Climate change poses significant financial, operational, and reputational risks for public sector entities—ranging from damage to infrastructure and assets to increased costs of disaster response, disruptions to service delivery, and potential liabilities.

These risks can also affect government revenue (e.g. decreased agricultural or tourism activity) and long-term economic growth.

### **4.1 Non-mandatory guidance**

Although not mandatory for financial reporting disclosures, the collective FMM seeks to bring awareness to government agencies of this policy progression and eventual disclosure of climate related risks and its impact on future agency reporting. Under the FMM:

- Volume 02.3 requires agencies to incorporate ESG elements in governance and financial frameworks, particularly for risk management purposes;
- Volume 02.8 requires agencies to capture climate risks in fiscal planning and public asset management (in accordance with the *Climate Change (Management) Act 2025*; and
- Volume 03.32 requires an agency's asset register to log climate change-related risks to public assets and incorporate them into asset life-cycle planning.
- Volume 7 discusses the requirements to capture climate change as part of cross-cutting issues as well as the sustainability in major projects. These considerations are mandatory under the Public Investment Program National Budget submission process.

The International Public Sector Accounting Standards Board (IPSASB) is actively exploring sustainability reporting in the public sector (e.g., consultation papers on natural resources, discussion about potential guidance for climate-related disclosures). Currently, there is no standalone IPSAS dedicated to climate-change reporting, but the general IPSAS disclosure framework can accommodate climate information under risk disclosures (IPSAS 1, 19, 20, etc.) in accrual-basis entities.

For cash-basis entities, climate-related items could appear as contingent liabilities or notes on potential impacts and risks and agencies are encouraged to do so.

#### **4.2 How to recognise material climate risks and their impact**

Climate change can be disclosed or occur in public sector financial reports through:

- Damages to assets (e.g., roads, public buildings) from rising sea levels, extreme weather events (floods, cyclones, drought), and potential disruption of service delivery.
- Policy changes (e.g., carbon taxes, new environmental regulations) leading to increased compliance costs or stranded assets.
- Government obligations for disaster relief, rehabilitation, or potential litigation if communities or other entities hold the government accountable for climate impacts.
- Reduced tax base from affected industries (e.g., agriculture, tourism) or changes in resource revenue.
- Climate adaptation and mitigation programs might require significant budget allocations, affecting overall budget and performance targets.

#### **4.3 Optional approaches to reporting climate-related risks**

Reporting entities are encouraged to report or introduce frameworks to enable future report through risk disclosure in notes.

For Cash-Basis Reporting Entities this is the recognition in the notes of significant climate vulnerabilities, contingent obligations, or resilience

measures planned. This includes all large-scale climate-related obligations, such as disaster relief programs or major infrastructure adaptation.

For Accrual-Basis Entities:

1. Under IPSAS 19 (Provisions, Contingent Liabilities, and Contingent Assets), entities can disclose climate-related contingent liabilities if it is probable (though not fully certain) that a significant outflow of resources may occur in the future due to climate events or litigation.
2. IPSAS 1 encourages disclosure of key judgments in applying accounting policies, including areas of estimation uncertainty. If climate factors materially affect asset valuations or residual lives, and disclosure is in the notes.

All agencies can consider inclusions in performance reporting (including performance management plans required under the PFMA), by:

- Provide narrative discussion of the agency’s climate strategies, adaptation/mitigation efforts, and how these are funded.
- Outline climate-resilient investment plans or climate adaptation measures in service delivery. Show budget allocations and spend for each project.
- Inclusions in the annual management plan and corporate plan of agencies of forward-looking climate analyses, including identification of climate risks in the agency’s risk assessment processes and adaptation of climate change in asset replacement and rehabilitation.

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