



Federal Accounting Standards Advisory Board

August 18, 2017

Memorandum

To: Members of the Board

*Ross Simms*

From: Ross Simms, Assistant Director

*Wendy M. Payne*

Through: Wendy M. Payne, Executive Director

MEMBER ACTIONS REQUESTED:

- Review the results of staff's outreach efforts on streamlining management's discussion and analysis and required supplementary stewardship information and answer questions on page 17.

Subj: Federal Financial Reporting: Streamlining Management's Discussion and Analysis and Required Supplementary Stewardship Information – **TAB I**<sup>1</sup>

**OBJECTIVES**

The objectives are to 1) review the results of outreach efforts to identify possibilities for streamlining management's discussion and analysis (MD&A) and required supplementary stewardship information (RSSI) and 2) provide direction to staff on the next steps.

**BRIEFING MATERIALS**

The briefing material includes this memorandum and the following attachments:

**Attachment I** provides a summary of staff's roundtable discussion with the CFO community and independent public accountants.

**Attachment II** provides excerpts of stewardship investments reporting requirements as presented in staff's April 22, 2005 Board materials.

<sup>1</sup> 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.

**Attachment III** provides the strawman of a draft exposure draft proposing to eliminate RSSI

## **BACKGROUND**

During the June 2017 meeting, the Board agreed to consider opportunities for streamlining MD&A and RSSI. In May 2017, Board members reviewed financial reports and FASAB staff conducted roundtable discussions to determine potential areas for streamlining. As a result, staff noted several areas, including MD&A, RSSI, other information, the overall reporting model, and certain financial statements and note disclosures that might be suitable for the streamlining initiative. Given the range of possibilities, the Board decided to use a two-phased approach for reviewing the streamlining options. During the first phase, the Board will focus on areas that can be addressed in the near term and, in the second phase, consider areas to address over the long term.

The Board's near-term efforts involve MD&A and RSSI and, on July 20, 2017, staff engaged roundtable participants to discuss how MD&A and RSSI might be streamlined. MD&A is intended to be concise. However, Board members and others noted MD&A is often broad and may overwhelm readers. In addition, with respect to RSSI, users can access the information from other sources, such as *Analytical Perspectives*, *Budget of the United States Government*, *Fiscal Year 2017*. Related performance information may also be presented in agency performance reports.

For the long term, staff will consider the other areas proposed by Board members and roundtable participants. In addition, the Board will initiate a note disclosures project. Members discussed that the entire financial reporting community can become involved in the process of identifying opportunities for streamlining financial reports; users do not necessarily need to wait for standards to be developed.

## **NEXT STEPS**

The next steps for the project will be determined during the meeting.

## **MEMBER FEEDBACK**

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov).

## **MD&A**

### **Roundtable Discussion Results**

MD&A discussion participants recommended that FASAB eliminate the reporting requirement to address the reporting entity's vital few performance goals, objectives, and results in MD&A and require reporting entities to inform readers on where to obtain the entity's annual performance report (APR). Discussion participants explained that actual performance information is not available at the time reporting entities are required to issue their financial reports.<sup>2</sup> Consequently, reporting entities may present estimated performance information in MD&A and subsequently report actual information in the entity's required APR. Users access the APR to address their performance information needs rather than the estimates presented in MD&A. Discussion participants believed that directing users to the APR and eliminating the reporting requirement to address the reporting entity's performance in MD&A would enhance users' access to performance information, reduce redundant reporting, and reduce reporting burden. Attachment I provides details of the discussion.

### **Historical Context Regarding MD&A and Performance Information**

During the development of the existing MD&A reporting requirements, the Board contemplated the impact of some significant initiatives driving changes in the financial reporting environment. For instance, component reporting entities were piloting a report that combined financial statements and other information in a single document referred to as an accountability report. The report was intended to link information required by several statutes, including information on performance and systems and controls. Also, as evidenced by the Government Performance and Results Act of 1993 (GPRA), there was an increasing interest in performance information and performance reporting practices were evolving.

FASAB initially exposed guidance for MD&A as a concepts statement rather than a standard. At that time, the American Institute of Certified Public Accountants (AICPA) had not designated FASAB as the standards-setter for federal reporting entities. FASAB recommended financial reporting guidance and acknowledged that the Office of Management and Budget (OMB) could later provide more specific requirements regarding content. Thus, similar to its entity and display approach, the Board proposed conceptual MD&A guidance and OMB would provide guidance to implement the concepts.<sup>3</sup>

While respondent's views were mixed regarding whether MD&A guidance should be concepts or standards, the Board believed MD&A was an integral part of general purpose financial reports (GPPFR) and MD&A should be required supplementary

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<sup>2</sup> In addition, in some instances, the financial reporting period can be different from the program's performance period.

<sup>3</sup> SFFAS 15, pars. 9 and 10.

information (RSI). As a result, the Board developed standards that permit management to have great discretion regarding what to say and later proposed MD&A concepts and standards, separately.<sup>4</sup>

The concepts appeared to describe existing practices and indicated that component reporting entities may present performance indicators in the GPFFR or incorporate a separate performance report by reference. However, regardless of the practice, the Board believed MD&A should include some information about performance with financial statements. For instance, the concepts state

The performance information (column 4 in figure 1) may include the indicators in an entity's performance report pursuant to the Results Act or a selection of the most important performance indicators. Alternatively, a separate performance report may be incorporated by reference. This information should be presented in conformance with guidelines published by OMB. MD&A, in turn, will discuss the most important aspects of the performance information. Reference to a separately-issued performance report does not eliminate the need to discuss performance in MD&A.

The performance reports required by the Results Act may be voluminous for some agencies. In such cases, it may not be desirable to include all this information in the GPFFR. It is necessary to include at least some information about performance with the financial statements, however, so that people who use the GPFFR can understand why the costs reported in the financial statements were incurred and the consequences of doing so.<sup>5</sup>

Some respondents to the concepts expressed concern that a GPFFR would become irrelevant if readers were directed to other reports for performance information. Those respondents believed the GPFFR should contain information about program performance not only in MD&A but also in discrete sections of the report.<sup>6</sup>

In addition, the Board recognized the comprehensive nature of the guidance and considered how to balance concision with comprehensiveness. While some members preferred a narrower scope, staff cautioned that as long as the guidance listed items to be discussed, it would be difficult for preparers to be concise.<sup>7</sup>

On June 8, 1999, the Board finalized the concepts and issued SFFAC 3, *Management's Discussion and Analysis*. The Statement provides the following basic concept for MD&A

Each general purpose federal financial report (GPFFR, [reference omitted]) should include a section devoted to management's discussion and analysis (MD&A). [footnote omitted] MD&A should address the reporting entity's program

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<sup>4</sup> SFFAS 15, pars. 12 - 14.

<sup>5</sup> SFFAC 3, pars. 19 and. 20.

<sup>6</sup> SFFAC 3, par. 60.

<sup>7</sup> FASAB October 3, 1996 staff notes.

and financial performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. The discussion and analysis of these subjects may be based partly on information contained in reports other than the GPFFR. MD&A also should address significant events, conditions, trends and contingencies that may affect future operations.<sup>8</sup>

The concepts discuss that the scope of MD&A may be more extensive than MD&A of a private sector firm. The government is complex, has numerous objectives, and the groups affected by and interested in the government's activities are diverse.<sup>9</sup>

Also, on August 12, 1999, the Board issued SFFAS 15, *Management's Discussion and Analysis*, and the standards were effective for periods beginning after September 30, 1999. SFFAS 15 requires MD&A for a report that presents a reporting entity's financial statements and states the following regarding MD&A's contents:

- MD&A should contain sections that address the entity's:
  - mission and organizational structure;
  - performance goals, objectives, and results;
  - financial statements; and
  - systems, controls, and legal compliance.
- 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. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.[footnote omitted] Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.<sup>10</sup>

When issuing the concepts and standards, the Board acknowledged the changes in the financial reporting environment and the evolving practices. The Board noted OMB could resolve questions on how to apply the standards in the context of new legislative requirements.<sup>11</sup> Also, the Board focused on developing MD&A guidance written in general terms,<sup>12</sup> and indicated that further guidance may be provided in the future.<sup>13</sup> In addition, the Board noted MD&A standards require MD&A to do more than refer to other documents<sup>14</sup> and, ultimately, the standards were explicit regarding the need for a concise MD&A rather than a detailed presentation.<sup>15</sup>

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<sup>8</sup> SFFAC 3, par. 1.

<sup>9</sup> SFFAC 3, par. 7

<sup>10</sup> SFFAS 15, pars. 2 and 3.

<sup>11</sup> SFFAS 15, par. 20.

<sup>12</sup> SFFAC 3, par. 8.

<sup>13</sup> SFFAC 3, par. 63.

<sup>14</sup> SFFAC 3, par. 60-63.

<sup>15</sup> SFFAS 15, par. 5.

## **Post Issuance of MD&A Concepts and Standards**

Since the issuance of SFFAC 3 and SFFAS 15, financial reporting continued to evolve. Many of the reporting changes were in response to financial management initiatives aimed at providing more timely financial information to management and informing the budget process. Rather than presenting financial and performance information in a single, printed document, component reporting entities ultimately diverged from this practice and began making the information available electronically in different reports, presented at different times, and for different purposes.

### Printed, Single Source Reporting

Initially after the Board finalized MD&A concepts and standards, component reporting entities continued combining reports from various financial management reforms. The reforms required agencies to prepare several reports in different formats which at times caused duplication of efforts.<sup>16</sup> The resulting report became to be known as a Performance and Accountability Report (PAR). The PAR included audited financial statements, an Annual Performance Report (APR) required by the GPRA, and other information. The desire to combine information contained in separate reports and provide a comprehensive picture of each agency's performance led to the Reports Consolidation Act (RCA) of 2000.

The RCA permitted and encouraged agencies to consolidate their annual financial statements and performance information in a PAR. The RCA also discussed that reports

...contain a summary of the most significant portions of the agency's program performance report, including the agency's success in achieving key performance goals, if the GPRA program performance report is not incorporated.<sup>17</sup>

However, some in the CFO community were concerned that the voluminous size of the printed PAR overwhelmed readers and hindered its understandability.

### Accelerated, Electronic Reporting

Another initiative soon developed to improve managers' access to financial and performance information. The initiative, referred to as accelerated reporting, was intended to "...ensure that timely and accurate financial and performance information is

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<sup>16</sup> Report of the Committee on Governmental Affairs United States Senate to Accompany S.2712, To Amend Chapter 35 of Title 31, United States Code, to Authorize the Consolidation of Certain Financial and Performance Management Reports Required of Federal Agencies, and for Other Purposes, Report 106-337, July 11, 2000.

<sup>17</sup> Pub. L. No. 106-531, 114 STAT 2537 (November 22, 2000)

made available to federal agency managers as soon as possible after the end of the fiscal year and throughout the year.”<sup>18</sup> OMB required component reporting entities to submit their PAR 45 days after the end of the fiscal year (November 15 for a September 30 fiscal year-end) and submit unaudited interim financial statements 21 days after the end of each of the first three quarters of the fiscal year.<sup>19</sup>

Also, OMB encouraged component reporting entities to prepare a brief “highlight” version of the PAR and move away from printed documents. Citizens would be the intended user of the highlight document and OMB guidance stated the following

Agencies are also encouraged to develop a brief highlights version of the annual PAR. The PAR Highlights should exist as a standalone document, presenting key findings and relevant financial and performance data. Agencies should prepare the highlights document in a manner and writing style appropriate for the general public. Agencies may find it useful to prepare a PAR highlights with a CD of the entire PAR document included as an alternative to distributing numerous printed copies of the entire PAR document.<sup>20</sup>

Thus, component reporting entities prepared MD&A and highlight documents, both presenting key financial and performance information.

However, the financial and performance information in PARs were not necessarily integrated<sup>21</sup> and management recognized the need to link performance measures to the budget. The *FY 2001 Financial Report of the U.S. Government* noted the following with respect to performance measures

What has been missing is systematic use of these measures to make decisions. In particular, performance measures are not directly linked to the budget—and yet it is the budget that drives policy development, allocates resources, and has undeveloped potential to support better management.<sup>22</sup>

Consequently, the President’s Management Agenda included the Budget/Performance Integration Initiative aimed at linking results with resource allocation decisions.<sup>23</sup>

### Accelerated, Electronic, Multiple Sources Reporting

In an effort to further improve the reporting of financial and performance information, component reporting entities began experimenting with an alternative to the PAR and providing the information on a website. In FY 2007, component reporting entities could prepare an agency financial report (AFR). The AFR would be published on the agency’s

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<sup>18</sup> OMB Circular A-136, *Financial Reporting Requirements*, August 23, 2005.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> Kull, Joseph L. "PAR-the Report we Love to Hate." *The Journal of Government Financial Management* 55, no. 4 (Winter, 2006): 20-25.

<sup>22</sup> FY 2001 Financial Report of the U.S. Government, p.17.

<sup>23</sup> Ibid, p.18.

website by November 15th, and include the Agency Head Message, MD&A, the financial statements, notes, audit report, major management challenges, and other required information. MD&A would include a high-level discussion of performance information and the AFR would inform readers on when and where the APR and highlights document would be available to the public. OMB explained the goal of the initiative as follows,

The goal of the pilot is to allow agencies to explore different formats to enhance the presentation of financial and performance information and make this information more meaningful and transparent to the public. The pilot will allow agencies the flexibility to tailor financial and performance reporting to their constituencies, while complying with all statutory requirements. Agencies that participate in the pilot will also prepare a “Highlights” document to summarize key financial and performance issues. The “Highlights” document will more easily identify critical indicators of government’s effectiveness and efficiency in achieving its financial and performance goals.<sup>24</sup>

The APR would provide detailed performance information required by the GPRA and would be submitted with the component reporting entity’s congressional budget justification (CBJ). The APR would also discuss performance improvements that are expected to result from the resources requested. In addition, component reporting entities would publish the highlight document on their website on or before the Friday prior to the release of the president’s budget (February 1). The highlights would present budget, performance, and financial information in a brief, user-friendly format and would later be referred to as a summary of performance and financial information (SPFI).

As component reporting entities progressed in preparing AFRs under the accelerated, electronic reporting requirements, MD&As remained voluminous. Despite the requirement for conciseness, the Board reviewed MD&As and, in 2009, determined they were not concise. FASAB members believed MD&As did not meet the expectations established in the concepts and standards and MD&As did not effectively summarize entity performance and financial results.<sup>25</sup>

Later, the GPRA Modernization Act of 2010 (GPRAMA)<sup>26</sup> refined the GPRA requirements to facilitate more frequent, relevant data to inform decision makers. GPRAMA was intended to help advance the use of performance information in policy decisions such as budget allocations and requires: new products and processes; new roles for department and agency officials; data on cross-cutting areas; performance information in a machine-readable format; making performance information available on a public website; and a central inventory of federal programs to help citizens understand

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<sup>24</sup> OMB, FY 2007 Pilot Program for Alternative Approaches to Performance and Accountability Reporting, May 17, 2007.

<sup>25</sup> FASAB staff MD&A White Paper, June 2, 2009, p.1.

<sup>26</sup> 1 Pub. L. No. 111-352, 124 Stat. 3866 (2011). GPRAMA amended the Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (1993).



the range of services the federal government performs.<sup>27</sup> Consequently, as part of the new requirements, performance information would be centralized on a federal website.

## **MD&A Reporting Concerns and Best Practice Guidance**

In May 2011, the Accounting and Auditing Policy Committee issued MD&A best practices guidance. The MD&A best practices guidance discussed some of the MD&A reporting concerns and provided examples of best practices from component reporting entities. The guide noted reporting entities often discussed numerous internal, operational performance measures which were not meaningful to external users. Accordingly, the guide offered examples of best practices presenting fewer measures.<sup>28</sup> In some examples, component reporting entities used web-based MD&As with links to detail.<sup>29</sup>

## **Input from Other Standards-Setters Regarding Performance Reporting**

Other standards-setters appear to encourage performance reporting. For instance, conceptually, the Governmental Accounting Standards Board (GASB) believes one of the objectives of financial reporting is to provide information to assist users in assessing the service efforts, costs, and accomplishments (SEA) of the government. However, GASB issued suggested guidelines for voluntary SEA reporting. The suggested guidelines are considered non-authoritative guidance. Governments believed standardized performance measures were unreasonable and were concerned about GASB issuing standards for reporting performance measures.<sup>30</sup>

In addition, the International Public Sector Accounting Standards Board's (IPSASB) concepts discuss the need for information about service performance in the public sector, considering service performance is the most important topic to the public. The IPSASB developed service performance guidance providing a framework for making decisions about reporting on services and is intended to facilitate consistent terminology. The service performance reporting guidance is a recommended practice guide and, because adopting the guidance is voluntary, a country can claim IPSAS compliance without adopting all elements of the guidance.<sup>31</sup>

## **Question for the Board**

The GPFFR considered during the development of FASAB's MD&A concepts and standards has evolved. Component reporting entities present financial information soon after year end to inform management decision-making and present detailed performance information at a time to inform budget decisions. Also, a SPFI summarizes

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<sup>27</sup> Pub. L. No. 111-352, 124 Stat. 3866 (2011).

<sup>28</sup> Accounting and Auditing Policy Committee, *Management's Discussion and Analysis Best Practices Report*, May 2011, p.2.

<sup>29</sup> Ibid, p.57.

<sup>30</sup> FASAB Performance Reporting Educational Session, August 25, 2016.

<sup>31</sup> FASAB Performance Reporting Educational Session, October 29, 2016.

the financial, performance, and budget information and the Board's proposed concepts acknowledges this presentation in the reporting model. Although the information may not reside in a single location, it is linked and made accessible to users.

Does the Board agree or disagree with the roundtable participants' recommendation to eliminate the reporting requirement to address the reporting entity's vital few performance goals, objectives, and results in MD&A and, instead, require reporting entities to inform readers on where to obtain the entity's annual performance report?

## RSSI Results

Discussion participants agreed that RSSI should be eliminated from component reporting entity financial reports. FASAB standards explained that “traditional” financial measures do not address all the responsibilities of the federal government. Accordingly, other measures, such as RSSI, are needed to demonstrate the government’s accountability.<sup>32</sup> Nevertheless, in practice, the information does not appear to be useful to financial statement users given the absence of inquiries regarding the information. Also, with respect to demonstrating accountability, RSSI items are discussed as part of the reporting entity’s mission and performance. Eliminating the reporting requirements for the RSSI category would also reduce redundant reporting and reporting burden. See Attachment I for details of the discussion.

### Historical Context for RSSI: Stewardship Investments

The Stewardship objective of federal financial reporting focuses on “...the requirement that the government report the broad outcomes of its actions.”<sup>33</sup> The objective states that federal financial reporting should provide information that helps the reader to, “...determine whether government operations have contributed to the nation’s current and future well-being.”<sup>34</sup> To address this objective, the Board believed that financial and non-financial information would be needed, including information on the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development, education and training, and state-owned infrastructure.<sup>35</sup> This information would later become known as stewardship investments.

In the early 90’s, when the Board decided to develop guidance for stewardship investments, the Board had to weigh several issues and its conceptual framework was under development. Consequently, the Board made and explained its definition, recognition, and measurement decisions in the context of each specific standard.

Initial concerns included the role of the federal balance sheet and the definition of an asset. Some believed that the federal balance sheet was not complete or relevant in the federal environment. The balance sheet recognized items meeting the “traditional” definition of an asset but excluded nonphysical investments, such as investments in human and intellectual capital intended to benefit current and future periods.<sup>36</sup> The Board’s views regarding federal assets were as follows

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<sup>32</sup> SFFAS 8, *Supplementary Stewardship Reporting*, par.9.

<sup>33</sup> SFFAC 1, par. 135

<sup>34</sup> SFFAC 1, par. 143.

<sup>35</sup> SFFAC 1, par. 145.

<sup>36</sup> FASAB Investments Project Task Force Notes, March 31, 1993.

The government makes significant investments in assets, including public domain assets and large investments intended to produce growth (educational programs and research and development, for example).

In government, as in the private sector, assets are expected to provide benefits that outweigh costs. In the private sector, the notion of benefits is relatively straightforward: benefits are measured in terms of cash inflows. Assets are not acquired unless the value of expected cash flows exceeds acquisition costs.

In the government, this discipline does not usually exist. Expected benefits often are not cash inflows but rather are the services provided by the asset. Sometimes those services are provided to the government itself (e.g., government office buildings or motor pools). More often, the services are provided to the public (e.g., education and research and development).<sup>37</sup>

The Board also believed that financial statements presented information primarily derived from general ledgers, expressed in dollar amounts, and subject to certain internal controls. For instance, the Board stated

The information pertaining to the aforementioned investments, certain types of property, plant, and equipment, [footnote omitted] and claims on future budgetary resources is maintained in part in the entities' general ledgers and, in part, external to the general ledgers. Some of the information is recorded in units other than dollars, e.g., acres, millions of square feet. Finally, some of the information is not subject to the types of controls present in a system of double entry recordkeeping. Accordingly, a more suitable way to fulfill the third reporting objective would be to display the appropriate information as **required supplemental information** rather than attempting to include it in financial statements. [footnote omitted]<sup>38</sup>

In addition, the Board appeared to be concerned about the location of items within a GPFFR. Board members appeared to believe that the government's investments should not be viewed as having a lesser "status" than the balance sheet items.<sup>39</sup> Also, during the time, users were interested in performance measures and entities were engaged in addressing GPRA requirements.

To address the financial reporting concerns, the Board sought non-traditional approaches to account for the government's investments. For example, the Board considered an accountability statement showing investments categorized as physical (monuments and weapons systems), human and intellectual capital (education and training, research and development), and other (grants for infrastructure).<sup>40</sup>

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<sup>37</sup> SFFAC 1, pars. 63-65.

<sup>38</sup> SFFAC 2, Entity and Display, par. 71.

<sup>39</sup> "FASAB Investments Project Task Force Notes, March 31, 1993.

<sup>40</sup> Ibid.

Recognizing the complexity of the federal government and the need for information other than financial information, the Board developed the RSSI category. The Board did not expect RSSI to link directly to basic financial statements because the information would include physical units and projections.<sup>41</sup>

Subsequently, in August 1995, the Board proposed RSSI for several topics, including stewardship investments. In the exposure draft the Board recognized that certain resources treated as expenses in the financial statements are intended to provide long-term benefits to the public and the Board proposed that data on those resources should be highlighted to show the long-term nature of the resources and to demonstrate accountability over them.<sup>42</sup>

With respect to human capital and research and development, the Board believed that such federal expenses benefit more than the current period and are not consumption expenditures. Rather, the amounts represent investments designed to maintain or increase national economic productive capacity or provide other future benefits. The Board proposed reporting trend data on the investments and categorizing expenses as investments for stewardship purposes would be predicated on demonstrated outputs and outcomes consistent with the intent of the program.<sup>43</sup>

The Board also proposed trend data on the investment in non-federal physical property. The Board proposed that investments in non-federal physical property would include expenses incurred for 1) the purchase, construction, or major renovation of physical property that is owned by state and local governments; and 2) federally owned plant, property, and major equipment transferred to a state or local government in exchange for less than fair value.<sup>44</sup>

Respondents generally favored<sup>45</sup> the Board's proposals and requested some clarifications. In addition, some respondents questioned the need for the RSSI and the Board explained that certain stewardship information should receive, "...more audit scrutiny than if it were RSI"<sup>46</sup> and the information would not be drawn from financial records. Consequently, it would not be feasible for auditors to rely on financial records for support. However, the Board did expect greater auditor involvement than applied to required supplementary information (RSI).<sup>47</sup>

Later, in May 1996, the Board issued SFFAS 8, *Supplementary Stewardship Reporting*. Attachment 2 provides a summary of the requirements for stewardship investments.

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<sup>41</sup> SFFAS 8, par. 20.

<sup>42</sup> FASAB Exposure Draft, *Supplementary Stewardship Reporting*, August 1995, par. 1.

<sup>43</sup> FASAB Exposure Draft, *Supplementary Stewardship Reporting*, August 1995, Chapters 6 and 7.

<sup>44</sup> FASAB Exposure Draft, *Supplementary Stewardship Reporting*, August 1995, Chapter 5.

<sup>45</sup> At that time, the Board evaluated the degree of agreement or disagreement with a proposal, asking respondents to indicate their response on a scale ranging from one (agree) to five (disagree).

<sup>46</sup> SFFAS 8, par. 113.

<sup>47</sup> Ibid.

## Post Issuance of RSSI Requirements

In their FY1998 and 1999 GPFFRs, reporting entities began implementing the requirements for RSSI. However, as the Board monitored the practices, it noted that the implementation was not as expected. The RSSI requirements were creating concerns for users and auditors and the Board began eliminating and re-categorizing RSSI, leaving only stewardship investment information. Board members questioned the relevance of the remaining information but did not eliminate it. Also, the Board continued to advance its conceptual framework, finalizing concepts to guide the development of future standards and to evaluate existing standards.

### Reconsidering RSSI

In 2000, the Board began reconsidering the need for the RSSI category. Audit requirements specifically for RSSI were not defined and there were concerns that users might not pay sufficient attention to important information if it is considered “supplementary” and users may be confused by fragmented reports. The Board believed this impedes users’ understanding and reduces the credibility of federal financial reports. Also, inappropriate use of the RSSI category could invite suspicion of reports in which information that may be as significant as the basic financial statements is labeled “supplementary,” and may or may not be audited. The Board recognized academic research and practical experience indicating that the way some use or weight financial data in their decisions can be influenced by the location and format in which the information is reported.<sup>48</sup>

Subsequently, the Board determined that the objectives of federal financial reporting could best be accomplished within the framework of categories of accounting information established by the accounting and auditing professions before FASAB created RSSI. Accordingly, the Board started eliminating and re-categorizing RSSI.

SFFAS 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, eliminated the use of RSSI to report weapons systems information and SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, eliminated the use of RSSI for the reporting of information about stewardship responsibilities. Also, SFFAS 29, *Heritage Assets and Stewardship Land*, eliminated the use of RSSI for the reporting of stewardship property, plant and equipment (PP&E). As a result, stewardship investment information is the remaining component of RSSI.

### Questioning the Relevance of Stewardship Investment Information in GPFFRs

In 2003, the Board was concerned whether stewardship investment information was necessary. Staff had preliminarily proposed that the Board re-categorize stewardship investment information to RSI. While FASAB agreed with the preliminary staff proposal,

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<sup>48</sup> Preliminary Views on Eliminating the Category “Required Supplementary Stewardship Information,” December 2000, par. 7.

the Board noted that the information was also being made available outside of the GPFFRs. In addition, a member questioned the purpose of reporting the information and another member explained that even if the Board eliminated the information, component reporting entities would still be permitted to include the information in their reports. In addition, another member explained that some of this information, especially specific to outcomes, is now required by GPRA. As a result, the Board decided that staff should research the area further to determine if the information is still necessary, especially in relation to the Board's project to reconsider the Stewardship objective.<sup>49</sup>

Again, in 2005, Board members questioned the relevance of stewardship investment information in GPFFRs. Several Board members believed the stewardship investment information should be eliminated because reporting entities were reporting the information to meet other requirements and the information may not be as useful as originally intended. However, the Board decided to retain the information because 1) they did not want to reverse the action of a prior Board without due process and deliberation; and 2) dedicating resources to a project on stewardship investments was not a high priority at the time. Also, because stewardship investment reporting was intended to help achieve the Stewardship objective, the Board desired to revisit the Stewardship objective before making a decision.<sup>50</sup>

### Advancing the Conceptual Framework

Subsequent to the issuance of RSSI requirements, the Board has developed additional conceptual guidance. The guidance describes concepts and relations that will underlie future federal financial accounting standards and practices and will serve as a basis for evaluating existing standards and practices. The guidance includes concepts regarding definitions of elements and basic recognition criteria for accrual basis financial statements; distinguishing basic information, RSI, and other accompanying information; and measurement of the elements of accrual basis financial statements in periods after initial recording. Also, the Board is finalizing concepts on federal financial reporting.

In addition, the Board has revisited earlier concepts regarding the objectives of federal financial reporting. The Board conducted roundtable discussions and researched users' needs and determined that the objectives remain valid, including the Stewardship objective. However, the Board determined that its focus would be on the financial condition of the government rather than the financial condition of the nation.

### **Previous Decisions to Eliminate Required Information**

In addition to eliminating components of RSSI, the Board has considered the financial management community's request to eliminate required information. For example, the Board considered whether to eliminate disclosures regarding revenue-related transactions affecting the beginning and end-of-period balances of accounts receivables, accounts payable for refunds, and the allowance for uncollectible amounts.

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<sup>49</sup> FASAB Minutes December 11, 2003.

<sup>50</sup> FASAB Minutes May 5, 2005.

The Board required disclosure of this information in 1998 and subsequently the community raised questions about the usefulness of the information. The community also expressed concerns about the practicality of presenting the information.

The Board decided to rescinding the required disclosure and expressed the following

The Board actively sought comments from potential users. In addition to the FASAB distribution list, the Board sent the ED to all those who had commented on the prior ED of November 1998 and to potential decision-makers, including especially House and Senate committees and sub-committees. Also, in setting February 16, 2001, as the cut-off date for comments, the Board provided an extended period for respondents to submit comments. Despite the Board's efforts to reach users, the response to the ED did not demonstrate a demand from users to have the information. Only one respondent said the information was useful and necessary. Other respondents who oppose eliminating paragraph 65.2 at this time said that the Board did not offer enough evidence regarding relevance and understandability to warrant eliminating paragraph 65.2, not that they themselves found it useful or relevant and for what purposes. Due to the cost of the information, the availability of other information on this topic, the requests from the preparer and auditor communities, and lack of a response from users of the information, the Board does not believe the paragraph should be retained.<sup>51</sup>

### **Question for the Board**

The Board has observed and expressed concerns regarding RSSI and its remaining component, stewardship investment information. In considering areas for streamlining financial reporting and improving user access to information, roundtable participants from the financial management community reiterated the Board's concerns, noting the information does not appear to be useful to financial statement users. Reporting entities provide the information to satisfy other requirements for performance information and information on the government's contribution to the nation's current and future well-being. Eliminating the reporting requirements for the RSSI category would reduce redundant reporting and reporting burden. Attachment III provides a draft exposure draft of a proposal to eliminate RSSI.

Does the Board agree or disagree with the recommendation to eliminate RSSI from component reporting entity financial reports?

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<sup>51</sup> SFFAS 20, Elimination of Certain Disclosures Related to Tax Revenue, par. 27.



## Questions for the Board

1. The GPFFR considered during the development of FASAB's MD&A concepts and standards has evolved. Component reporting entities present financial information soon after year end to inform management decision-making and present detailed performance information at a time to inform budget decisions. Also, a SPFI summarizes the financial, performance, and budget information and the Board's proposed concepts acknowledges this presentation in the reporting model. Although the information may not reside in a single location, it is linked and made accessible to users.

Roundtable participants expressed concerns regarding the presentation of performance information in MD&A under the current model. In general, actual performance information is not available at the time reporting entities are required to issue their financial reports. Consequently, they may present estimated performance information in MD&A and subsequently report actual information in the entity's required performance report. In addition, other standards-setters encourage or recommend performance reporting. Consequently, roundtable participants recommended that the Board eliminate the reporting requirement to address the reporting entity's vital few performance goals, objectives, and results in MD&A and, instead, require reporting entities to inform readers on where to obtain the entity's annual performance report.

Does the Board agree or disagree with the roundtable participants' recommendation?

2. The Board has observed and expressed concerns regarding RSSI and its remaining component, stewardship investment information. In considering areas for streamlining financial reporting and improving user access to information, roundtable participants from the financial management community reiterated the Board's concerns, noting the information does not appear to be useful to financial statement users. Reporting entities provide the information to satisfy other requirements for performance information and information on the government's contribution to the nation's current and future well-being. Eliminating the reporting requirements for the RSSI category would reduce redundant reporting and reporting burden. Attachment III provides a draft exposure draft of a proposal to eliminate RSSI.

Does the Board agree or disagree with the roundtable participants' recommendation to eliminate RSSI from component reporting entity financial reports?

## **Discussion on Streamlining Management's Discussion and Analysis and Required Supplementary Stewardship Information**

**July 20, 2017**

**9:00 A.M.**

**Government Accountability Office**

**441 G St NW Room 4N30**

**Washington DC 20548**

### **Summary**

Discussion participants agreed that the performance section of Management's Discussion and Analysis (MD&A) should be streamlined to simply informing readers on where to obtain the reporting entity's annual performance report (APR). Federal Accounting Standards Advisory Board (FASAB or "the Board") concepts explain that users need indicators of a government entity's accomplishments and other indicators to adequately assess its performance.<sup>1</sup> Because financial results alone would not be sufficient, the concepts note that performance information is an integral part of financial reports<sup>2</sup> and FASAB standards require MD&A to include a section addressing the entity's performance goals, objectives, and results.<sup>3</sup>

However, actual performance information is not available at the time reporting entities are required to issue their financial reports. Reporting entities present estimated performance information in MD&A and subsequently report actual information in the entity's required APR. Users access the APR to address their performance information needs rather than the estimates presented in MD&A. Consequently, directing users to the APR and eliminating the reporting requirement to address the reporting entity's performance in MD&A would enhance users' access to performance information, reduce redundant reporting, and reduce reporting burden.

In addition, participants agreed that RSSI should be eliminated from component reporting entity financial reports. FASAB standards explained that "traditional" financial measures do not address all the responsibilities of the federal government. Accordingly, other measures, such as RSSI, are needed to demonstrate the government's accountability.<sup>4</sup> Nevertheless, in practice, the information does not appear to be useful to financial statement users given the absence of inquiries regarding the information. Also, with respect to demonstrating accountability, RSSI items are discussed as part of the reporting entity's mission and performance. Eliminating the reporting requirements for the RSSI category would also reduce redundant reporting and reporting burden.

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<sup>1</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, par. 13.

<sup>2</sup> SFFAC 3, par. 13.

<sup>3</sup> Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*, par. 2.

<sup>4</sup> SFFAS 8, *Supplementary Stewardship Reporting*, par.9.

## Background

The objective of the meeting was to determine opportunities for streamlining Management's Discussion and Analysis (MD&A) and required supplementary stewardship information (RSSI). In May 2017, the Federal Accounting Standards Advisory Board (FASAB or "the Board") began focusing on near-term opportunities for streamlining financial reporting. Board members reviewed financial reports and FASAB staff conducted roundtable discussions to determine potential areas for streamlining. As a result, staff noted several areas, including MD&A, RSSI, other information, the overall reporting model, and certain financial statements and note disclosures that might be suitable for the streamlining initiative.

Given the responses from the federal financial reporting community, the Board decided to use a two-phased approach for reviewing the streamlining options. During the first phase, the Board will focus on areas that can be addressed in the near term and, in the second phase, consider areas to address over the long term.

The Board's near-term efforts involve MD&A and RSSI. Although MD&A is intended to be concise, Board members and others noted MD&A is often broad and may overwhelm readers. FASAB developed guidance for the MD&A prior to the development of websites such as Performance.gov which present comprehensive information about reporting entities. In addition, with respect to RSSI, financial report preparers noted the information is not used and the information is available from other sources as well.

As part of the discussion, participants from various component reporting entities and independent public accountants (see Attachment for attendees) considered the aspects of MD&A and RSSI. Statement of Federal Financial Accounting Standard (SFFAS) 15, *Management's Discussion and Analysis*, provides guidance for MD&A. The standard notes that reporting entities should discuss the "vital few" matters<sup>5</sup> and address the following:

- mission and organizational structure;
- performance goals, objectives, and results;
- financial statements; and
- systems, controls, and legal compliance.

Also, the standard requires forward-looking information. In particular, the standard states

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. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends.[footnote omitted] Forward-looking information

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<sup>5</sup> SFFAS 15, par. 6.

may comprise a separate section of MD&A or may be incorporated with the sections listed above.<sup>6</sup>

In addition, RSSI primarily consists of stewardship investments, substantial investments made by the Federal Government for the benefit of the nation. When incurred, they are treated as expenses in determining the net costs of operations. However, FASAB guidance notes these items require special treatment so readers understand the extent of the investments. Such investments should be measured in terms of expenses incurred for certain education and training programs; federally financed research and development; and federally financed but not federally owned property, such as bridges and roads.<sup>7</sup> The Board believed the measures of accountability would help present the government's financial condition and provide a more complete presentation of entity performance.<sup>8</sup>

### **MD&A Mission and Organization Section**

This section is often a “boiler-plate” presentation and FASAB standards permit management to refer to information presented elsewhere, such as on a website. In addition, rather than presenting mission and organization information in a separate section, it could be integrated with the performance section. This approach would reduce the likelihood of repeating information in two separate sections.

Some participants noted that the mission and organization section is relatively easy to prepare, and that no additional changes to the section were necessary. The information needed to prepare the section is readily and publically available and is not subject to frequent changes. In addition it is not a very extensive section.

While it was noted that more prescription could be helpful for consolidation at the government-wide level, participants generally agreed FASAB's existing guidance for the section permits flexibility and more prescriptive guidance is not necessary. For example, with respect to mission and organization information, one reporting entity presents summary level information in the mission and organization section and more detailed information in the performance section.

### **MD&A Performance Section**

Participants agreed the performance section of MD&A is not achieving its intended purpose. A participant expressed that, ideally, users could see the cost of achieving certain outcomes, form an opinion about the value of those outcomes, and speak to their politician about the program. However, current MD&A presentations do not help users in this regard. Also, users seek a brief presentation with drill-down capability, minimal text, mouseover capability and integrated financial and performance information. Presenting separate financial and performance sections does not appear to

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<sup>6</sup> SFFAS 15, pars. 2 and 3.

<sup>7</sup> SFFAS 8, par. 12.

<sup>8</sup> SFFAS 8, par. 10.

provide the level of integration that users seek. In addition, users do not use the MD&A performance section. Instead, they refer to the reporting entity's annual performance report (APR) or websites such as Performance.gov. Consequently, participants did not believe the MD&A performance section added value.

Participants also noted the performance section was the most challenging section to prepare. Essentially, performance information is not available at the time the financial report is being prepared. While financial statements are due in November, APRs are not due until February<sup>9</sup> and the performance information may not be produced until the APR is due. As a result, agencies use information that may be nine or 10 months old or try to get estimates or projections. By their nature, these estimates in the AFR could differ from the actual numbers presented in the APR and/or Performance.gov. A participant noted that most of the effort is focused on the APR and only select highlights are presented in MD&A. This creates a situation in which agencies are able to present their goals but are not able to present matching performance results toward achieving all of those goals. In addition, the MD&A information duplicates information presented elsewhere. For these reasons, participants suggested that the content in this section could be replaced by references to other, more updated sources of performance information (i.e. APR, Performance.gov, etc.).

In addition, participants discussed challenges with respect to presenting only the "vital few" items in MD&A. For instance, participant noted the following:

- Presenting the vital few items is a challenge. There is a tendency to "cherry pick" metrics that provide the most favorable view of the reporting entity.
- In large agencies, various programs or activities seek to be recognized in the report and there could be political ramifications to excluding them.
- Programs of interest to the public could change from one year to the next.

Another participant contributed that FASAB standards do not seem to be focused on getting reporting entities to present information about their major cost drivers. There is a wide variety of approaches for presenting performance information in MD&A. Some may present information at the strategic mission level while others at the strategic goal level.

In addition, new strategic planning initiatives and the focus on budgets appears to be moving toward presenting performance information outside of MD&A. Agency financial reports (AFR) are typically considered reference documents. However, the performance section of MD&A is not referenced because the information is outdated once the reporting entity presents its APR. As a result, users go to the reporting entity's website for performance information. This lends additional support to the position that links to performance information [in the APR] would be better than presenting the information provided elsewhere, thus reducing the amount of redundant reporting.

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<sup>9</sup> Office of Management and Budget Circular A-11, *Preparation, Submission, and Execution of the Budget*, provides guidance for the annual performance report and explains that agencies have been aligning their APR and annual performance plan with their congressional budget justification. Agencies implemented the approach to improve the accessibility and usefulness of agency performance reporting for stakeholders and reduce the burden of duplicative planning and reporting timelines.

Some participants expressed concern regarding links in financial reports. Auditors do not provide assurances on the linked information and links are subject to change, providing an unstable reference. To address the concerns, a statement could be added informing readers that the information is not audited.

Participants also discussed the possibilities of presenting more granular cost information. During the early years of financial reporting some agencies presented cost by object class and the information was useful. A participant expressed that the focus should be on spending by object class and program. Users of their AFR are interested in the schedule of spending that provides spending by object class and program. Another participant indicated that if a reporting entity decided on a more granular statement of net cost, the materiality level would be lowered and the preparers could incur more challenges.

It was noted that the long-standing view of FASAB has been that, for governmental entities, costs should be linked to performance and a financial report would not be complete if costs are not linked to performance. However, practice has not evolved to this point and it was not clear what leverage FASAB could use to integrate cost and performance information.

Some participants acknowledged that it would be good to report the full cycle of what the government does, including strategic planning about the next five years, immediate goals, requested budget (supported by metrics regarding what the entity plans to achieve), and how the funds were spent. In essence, the AFR should show this is what the government did and how much it cost, compared to the amount budgeted.

However, a concern is that it is challenging to associate costs with outcomes. Some outcomes may not be evident for several years and may not directly result from the government's actions. Also, there is a concern that associating costs with outputs could impact budgets.

### **MD&A Financial Section**

Although discussions about the limitation of financial statements could be eliminated from the section, participants did not believe FASAB action was needed to streamline the section.

### **MD&A Systems, Controls, and Legal Compliance Section**

Participants appeared to indicate that the section could be improved. For instance, the agency head message and assurance statement could be streamlined and combined. However, Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, drives what information is reported rather than FASAB standards. OMB developed the circular at a time when various reports were being combined as one report. However, today, combining various reports into a single document may not be necessary. Thus, OMB needs to be engaged to streamline the section and reduce the preparer burden.

In addition, participants noted that this section contained a number of items that they felt were not adding value to the user. Some discussion is needed in this section to address the topic, but participants indicated that they do not believe the section needs to be as long as it currently is.

### **MD&A Forward-Looking Information Section**

Participants discussed various views regarding the forward-looking information section. A participant noted that their reporting entity does not view forward-looking information as a separate section. Instead, the information is embedded in the performance measures. Another participant noted the section should discuss items that drive major budget priorities in the upcoming year. Another participant indicated that this section could be eliminated entirely.

In addition, it was noted that performance information is truly what users would like to see in an annual report. However, the information is not available at the time of the financial report and is issued in a separate document. When agencies discuss significant performance challenges, it can be viewed as the reporting entity making a plea for funding. The forward-looking information section provides a means for management to report issues when other means may not be available.

Valuable economic forecasts have been presented in the section showing the impact on future budget expenditures. Also, reporting in the section would be consistent with reporting entities enterprise risk management (ERM) efforts. ERM requires looking into the future and discussing important risks.

### **Other**

Participants noted that their reporting entity's MD&A and AFR have grown as a result of Association of Government Accountant's Certificate of Excellence in Accountability Reporting program comments.

Also, the level of other information has grown and the Combining Schedule of Budgetary Resources could be removed due to its limited use. However, OMB Circular A-136 prescribes requirements for these items.

### **Recommendation for FASAB Regarding MD&A**

The participants recommended that FASAB eliminate the reporting requirement to address the reporting entity's vital few performance goals, objectives, and results in MD&A and require reporting entities to inform readers on where to obtain the entity's APR.

### **RSSI**

Participants agreed to eliminate RSSI, which the FASAB discussed previously. The category was intended to address the "soft" investments that do not meet the criteria for assets. However, participants noted challenges in gathering data to meet the reporting requirements and reporting entities do not receive inquiries regarding the information.

Also, the purpose for reporting the information is not clear; what should readers get from reading the information? In addition, the standard requires trend information. Reducing the number of periods to present would be helpful.

A participant noted that by eliminating the category, the government would not be eliminating measures of its accountability. RSSI items are presented in other sections of financial reports and the APR. For component reporting entities whose core mission involves RSSI, the items would be discussed upfront, in MD&A. Consequently, it would be redundant to discuss the items in a separate RSSI section. Also, some items, such as certain research and development, may be sensitive and should not be presented in financial reports.

### **Recommendation for FASAB Regarding RSSI**

The participants recommended that FASAB eliminate the reporting requirements for RSSI.



### List of Attendees

Name	Organization
Terrance Alfred	National Aeronautics and Space Administration
Charles Allen	Department of Education
Oscar Castro	Department of the Treasury
Colleen Graham	Department of the Treasury
Dianne Guensberg	Grant Thornton
Tom Harker	Department of Veterans Affairs
Jon Holladay	Deloitte
David Horn	Department of Health and Human Services
Mary Koskinen	National Science Foundation
Bill Kubistal	Kearney & Company
Kim Laurance	Department of Defense
Nita Nigam	Department of Housing and Urban Development
Kerrey Olden	KPMG
Mary Peterman	Department of Homeland Security
Robert Smalskas	GSA
Roger Von Elm	CliftonLarsenAllen
Greg Wilber	Deloitte
Deron Smallwood	Small Business Administration
Isa Farhat	Deloitte

#### FASAB Staff

Wendy Payne, Executive Director

Ross Simms, Assistant Director

Element	Description	Measurement	Minimum Reporting Requirements
<b>Nonfederal Physical Property</b>	Investments in nonfederal physical property refers to those expenses incurred by the Federal Government for the purchase, the construction, or the major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. <sup>9</sup>	<p>-Amounts for expenses incurred are reported in nominal dollars and measured on the same basis of accounting used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and cost of facilities.</p> <p>-Cash grants related to nonfederal physical property programs are recognized and reported as expenses in arriving at the net cost of operations.</p> <p>-Expenses incurred for program costs, contracts, or grants with split purposes<sup>10</sup> are reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment should be reported on the basis of the predominant application of the expense or transfer.</p>	<p>-Annual investment,<sup>11</sup> including a description of Federally-owned physical property transferred to state and local governments, provided for the year ended on the balance sheet date and for each of the preceding 4 years.<sup>12</sup></p> <p>-Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level.</p> <p>-Description of major programs involving Federal investments in nonfederal physical property including a description of programs or policies under which non-cash assets are transferred to state and local governments.</p> <p><u>Recommended Reporting</u></p> <p>-Reporting of significant state and local total contributions to shared or joint programs is encouraged but is not required. If it is known that other contributions in a significant amount were made, that fact (for example, expressed a percentage of the total program) should be reported even if the exact amount of the contribution is not known.</p>

<sup>9</sup> Grants for maintenance and operations are not considered investments.

<sup>10</sup> A split purpose grant is a grant that may have more than one purpose. An example of a grant with a split purpose is a grant issued to a state to construct segments of the National Highway System and to conduct highway research.

<sup>11</sup> Annual investment is the full cost of the investment and should be measured in accordance with SFFAS 4.

<sup>12</sup> In some cases, the information called for may not be available because entities have maintained their records on the basis of outlays rather than expenses. Agencies in this situation will continue to report the historical data on an outlay basis for which reporting is required and for which expense data are not available. However, at the end of 5 years, the agency should be able to report the expenses rather than outlays for each of the preceding 5 years.

Element	Description	Measurement	Minimum Reporting Requirements
Human Capital	Investments in human capital refers to those expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. <sup>13</sup>	<p>- Amounts for expenses incurred are reported in nominal dollars and measured on the same basis of accounting used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and cost of facilities.</p> <p>- Expenses incurred for program costs, contracts, or grants with split purposes<sup>14</sup> shall be reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment should be reported on the basis of the predominant application of the expense or transfer.</p> <p>- Managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported. If outcome data are not available, output data that best provide indications of the intended program outcomes should be used to justify continued treatment of expenses as investments until outcome data are available.</p>	<p>- Annual investment provided for the year ended on the balance sheet date and for each of the preceding 4 years.<sup>15</sup></p> <p>- Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level.</p> <p>- Narrative description of major education and training programs.</p> <p><i>Recommended Reporting</i></p> <p>- Reporting of significant state, local, private, or foreign total contributions to shared or joint programs is encouraged but is not required. If it is known that other contributions in a significant amount were made, that fact (for example, expressed a percentage of the total program) should be reported even if the exact amount of the contribution is not known.</p>

<sup>13</sup> This excludes education and training expenses of Federal civilian and military personnel. It also excludes education and training expenses whose purpose is not maintaining or enhancing national productive capacity.

<sup>14</sup> A split purpose grant is a grant that may have more than one purpose. An example of a grant with a split purpose is a grant issued to a teaching hospital to perform both medical education and medical research.

<sup>15</sup> In some cases, the information called for may not be available because entities have maintained their records on the basis of outlays rather than expenses. Agencies in this situation will continue to report the historical data on an outlay basis for which reporting is required and for which expense data are not available. However, at the end of 5 years, the agency should be able to report the expenses rather than outlays for each of the preceding 5 years.

Element	Description	Measurement	Minimum Reporting Requirements
<b>Research and Development</b>	Investment in research and development refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national productive capacity or yielding other future benefits. Research and development is composed of basic research, applied research, and development.	<ul style="list-style-type: none"> <li>- Amounts for expenses incurred are reported in nominal dollars and measured on the same basis of accounting used for financial statement purposes, including appropriate accrual adjustments, general and administrative overhead, and cost of facilities.</li> <li>- Expenses incurred for program costs, contracts, or grants with split purposes<sup>16</sup> shall be reported on the basis of an allocation of the expenses. If allocation is not feasible, the investment should be reported on the basis of the predominant application of the expense or transfer.</li> <li>- Managers of the investment program should be able to provide information on the outcomes for the programs for which the investments are reported. If outcome data are not available, output data that best provide indications of the intended program outcomes should be used to justify continued treatment of expenses as investments until outcome data are available.</li> </ul>	<ul style="list-style-type: none"> <li>- Annual investment provided for the year ended on the balance sheet date and for each of the preceding 4 years.<sup>17</sup></li> <li>- Reporting should be at a meaningful category or level. Reporting at the entity level should be more specific than at the government-wide level.</li> <li>- Narrative description of major research and development programs.</li> </ul> <p><u>Recommended Reporting</u></p> <ul style="list-style-type: none"> <li>- Reporting of significant state, local, private, or foreign total contributions to shared or joint programs is encouraged but is not required. If it is known that other contributions in a significant amount were made, that fact (for example, expressed a percentage of the total program) should be reported even if the exact amount of the contribution is not known.</li> </ul>

<sup>16</sup> A split purpose grant is a grant that may have more than one purpose. An example of a grant with a split purpose is a grant issued to a teaching hospital to perform both medical education and medical research.

<sup>17</sup> In some cases, the information called for may not be available because entities have maintained their records on the basis of outlays rather than expenses. Agencies in this situation will continue to report the historical data on an outlay basis for which reporting is required and for which expense data are not available. However, at the end of 5 years, the agency should be able to report the expenses rather than outlays for each of the preceding 5 years.



**Federal Accounting Standards Advisory Board**

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# **ELIMINATING REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by XX

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- [“Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board”](#)
- [“Mission Statement: Federal Accounting Standards Advisory Board,” exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#) and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov)

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## Federal Accounting Standards Advisory Board

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September XX, 2017

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

Your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Eliminating Required Supplementary Stewardship Information*, are requested. Specific questions for your consideration appear on page 4, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by [TBD].

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to e-mail your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 6H19  
441 G Street, NW, Suite 6814  
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

The Board's rules of procedure provide one or more public hearings may be held on any exposure draft. No hearing has yet been scheduled for this exposure draft.

Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

D. Scott Showalter  
Chairman

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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This proposal eliminates the requirement to present required supplementary stewardship information (RSSI) regarding the government's stewardship investments. Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, established standards for reporting on the federal government's stewardship over certain investments that are intended to provide long-term benefits. These investments improve the economic and productive capacity of the nation and are referred to as stewardship investments.

Stewardship investments include the following:

- **Nonfederal Physical Property.** Properties financed by the federal government, but owned by states and local governments, such as highways and bridges.
- **Human Capital.** Education and training programs financed by the federal government for the benefit of the public, such as job training programs and grants for higher education.
- **Research and Development.** Basic and applied research and development efforts to provide future benefits or returns, such as genetic code research to advance national medical research.

Although reporting entities include stewardship investment expenses in their accrual basis financial statements, RSSI focuses on their long-term-benefit nature. The RSSI includes trend data regarding the cost of the investments and, for investments in human capital and research and development, RSSI includes performance indicators.

The Board believed that the RSSI would assist users in understanding how the government's operations have contributed to the nation's current and future well-being. However, reporting entities provide information on outputs and outcomes and demonstrate accountability for stewardship investments in other reports, such as annual performance reports and the annual Budget of the United States Government. Consequently, the RSSI did not appear to be as useful as intended.

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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This proposal would streamline the reporting of information and improve users' access to the information they need. In addition, the proposal should reduce the costs associated with reporting on stewardship investments. While the RSSI would be eliminated, the amounts invested in nonfederal physical property, human capital, and research and development would continue to be included in the reporting entity's accrual basis financial statements.



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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement. Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by e-mail, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director  
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All responses are requested by XX, 2017.

- Q1. The provisions of Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, require the reporting of required supplementary stewardship information (RSSI) for investments in federally financed but not federally owned property, such as bridges and roads; certain education and training programs; and federally financed research and development. The Board is proposing to rescind the RSSI requirements because the government demonstrates accountability for these investments through other means and the RSSI was not as useful as the Board intended.

**Do you agree or disagree with the Board’s proposal to eliminate RSSI? Please provide the rationale for your answer.**

Q2.

## PROPOSED STANDARDS

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### SCOPE

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1. This Statement applies when a reporting entity is presenting general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### ELIMINATING REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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2. This paragraph rescinds SFFAS 8 in its entirety.

### EFFECTIVE DATE

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3. The requirements of this Statement are effective for reporting periods beginning after September 30, 2017.

The provisions of this Statement need not be applied to immaterial items.
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## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

### PROJECT HISTORY

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- A1. In May 2017, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) joined the Office of Management and Budget (OMB) and federal councils in determining opportunities for streamlining reporting requirements and improving financial reporting. Board members reviewed financial reports and FASAB staff conducted roundtable discussions with the financial reporting community to determine potential areas for streamlining. These efforts led to identifying Required Supplementary Stewardship Information (RSSI) as an area in need of streamlining in the near term.
- A2. Statement of Federal Financial Accounting Standards (SFFAS) 8, *Supplementary Stewardship Reporting*, provides guidance for RSSI. The Board developed the standards because “traditional” financial measures did not address all the responsibilities of the federal government. Accordingly, other measures, such as RSSI, were needed to demonstrate the government’s accountability.<sup>1</sup> In addition, RSSI would help achieve the Stewardship objective, helping users determine whether, “...government operations have contributed to the nation’s current and future well-being.”<sup>2</sup>
- A3. For RSSI, the Board intended that the Government Accountability Office and the OMB would define a level of auditor involvement greater than applied to required supplementary information (RSI) but less than applied to basic information. However, that level was not defined and the Board began eliminating some RSSI information and re-categorizing other RSSI information to basic or RSI. Currently, stewardship investment information is the sole topic that remains RSSI.

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<sup>1</sup> SFFAS 8, *Supplementary Stewardship Reporting*, par.9.

<sup>2</sup> Statement of Federal Financial Accounting Concepts, (SFFAC) 1, Objectives of Federal Financial Reporting, par. 143.

- A4. Stewardship investments include investments in nonfederal physical property, such as highways and bridges, and investments to increase or maintain national economic productive capacity—investments in human capital and research and development. Component reporting entities include the expenses incurred for stewardship investments in their statement of net cost and report additional information in RSSI.
- A5. The RSSI information includes trends in the costs incurred and, for investments in human capital and research and development, the RSSI information includes performance indicators.
- A6. The Board’s outreach efforts noted that the RSSI information did not appear to be useful to financial statement users. Reporting entity annual performance reports and the annual Budget of the United States Government inform users on such investments. Eliminating the reporting requirements for the RSSI category would reduce the burden users may encounter in considering various sources for information and the burden the financial management community incurs in reporting the information.
- A7. The Board has been concerned about RSSI because the information is “supplementary” and some users may not pay attention to the information, and users may be confused by the reporting of information in various places within GPFFRs.<sup>3</sup> In addition, the Board was concerned that the information was available from different sources, possibly
- a. confusing users regarding the appropriate source for accessing the information,
  - b. leading to differences in measurement among the sources that require explanation, and
  - c. burdening the users with redundant information.
- A8. The Board believes that the objectives of federal financial reporting can be accomplished within the framework of categories established by the accounting and auditing professions before FASAB created RSSI. Eliminating RSSI would streamline the information available to users and ultimately improve users’ access to information regarding the government’s stewardship. Also, component reporting entities would continue including the expenses related to stewardship investments in their statement of net cost. Performance reports would continue to provide relevant information.

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<sup>3</sup> SFFAS 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, par. 10.

## APPENDIX B: ABBREVIATIONS

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CFR	Consolidated Financial Report of the U.S. Government
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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