



Federal Accounting Standards Advisory Board

February 8, 2019

Memorandum

To: Members of the Board

*Ross Simms*

From: Ross Simms, Assistant Director

*Wendy M. Payne*

Through: Wendy M. Payne, Executive Director

Subj: Management's Discussion and Analysis – **TAB A**<sup>1</sup>

**MEMBER ACTIONS REQUESTED:**

By February 19, 2019 please review the materials and provide answers to the questions on page 5.

**OBJECTIVES**

The objective is to discuss a draft proposed Interpretation of Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*. The draft proposed Interpretation provides guidance to help better inform general purpose federal financial report (GPFFR) users about the results of operations and financial position of the federal government's complex reporting entities.

**BRIEFING MATERIALS**

The briefing material includes this memorandum and the following attachment:

- A draft exposure draft Interpretation of SFFAS 15.

**BACKGROUND**

During the December 2018 meeting, staff proposed that the Board develop an Interpretation to SFFAS 15, *Management's Discussion and Analysis*. The Interpretation

<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.

would clarify the purpose of the requirement for sections and the level of flexibility available in preparing MD&A. Also, the Interpretation would be level A in the hierarchy of GAAP. The Board generally agreed with the staff proposal, noting that an Interpretation would build on the existing MD&A concepts and standards and help drive change in areas in need of improvement.

## **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) .

## Draft Proposed Interpretation of SFFAS 15

### 1. Clarifying the SFFAS 15 Requirement Regarding the Structure of MD&A

SFFAS 15, paragraph 2 states that 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.<sup>2</sup> The proposed Interpretation explains that the intent of this requirement is to ensure GPFFR users are provided with relevant information on the listed topics in a clear and logical manner. Reporting entities, however, have discretion to structure the information in a manner most appropriate for addressing the required topics.

Discretion is needed because reporting entities have complex operations and provide diverse services. Also, some reporting entity matters involve interrelated topics. For instance, compliance with a change in a reporting entity's budgetary resources is a matter that could be discussed in a "performance results" section and a "financial statements" section. Repeating a discussion of the change in each section could obscure other relevant information needed to understand the reporting entity's results of operations and financial position. Reporting entities could instead focus on the entity's results of operations and financial position as a means to connect related matters. Reporting entities could discuss its results of operations and financial position in a general section about the change in budget authority and service level.

**Does the Board agree or disagree with the draft proposed Interpretation of SFFAS 15, paragraph 2?**

### 2. Addressing Users' Needs for Information About Reporting Entity Services

While reporting entities may have discretion in how to address required MD&A topics, the proposed Interpretation also explains that MD&A should assist users in understanding the entity's results of operations and financial position. An objective of MD&A is to help users understand the reporting entity's GPFFR.<sup>3</sup> GPFFRs consolidate diverse services while users are interested in information about those services<sup>4</sup> and they need information on services to understand the amounts reported in the entity's financial statements. The proposed Interpretation accordingly discusses the following instances when MD&A should ensure to discuss reporting entity services:

- a. an entity-wide discussion would present an incomplete or misleading perspective of the reporting entity, such as when existing, currently-known

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<sup>2</sup> SFFAS 15, paragraph 2.

<sup>3</sup> SFFAC 3, *Management's Discussion and Analysis*.

<sup>4</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, paragraph 59.

- demands, risks, uncertainties, events, conditions and trends relate to a particular service;
- b. a service or other sub-component contributes disproportionately to the net cost of operations; or
  - c. the entity's budgetary resources primarily relate to a particular service or other sub-component.

**Does the Board agree or disagree with the draft proposed guidance for discussing reporting entity services?**

### **3. Materiality**

The proposed Interpretation clarifies existing standards and, considering that the Board has proposed new concepts regarding materiality, the draft proposed Interpretation does not include materiality language. If included in the draft Interpretation, the language would state

The provisions of this Interpretation need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

**Does the Board agree or disagree with the proposal to exclude materiality language from the Interpretation?**

- 4. Should the draft proposed Interpretation address any additional matters at this time? If so, what additional matters should be addressed?**
- 5. What comments do members have regarding the draft proposed Interpretation?**

## QUESTIONS FOR THE BOARD

1. Does the Board agree or disagree with the draft proposed Interpretation of SFFAS 15, paragraph 2?
2. Does the Board agree or disagree with the draft proposed guidance for discussing reporting entity services?
3. Does the Board agree or disagree with the proposal to exclude materiality language from the Interpretation?
4. Should the draft proposed Interpretation address any additional matters at this time? If so, what additional matters should be addressed?
5. What comments do members have regarding the draft proposed Interpretation?



Federal Accounting Standards Advisory Board

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# INTERPRETATION: IMPROVING MANAGEMENT'S DISCUSSION AND ANALYSIS

AN INTERPRETATION OF STATEMENT OF FEDERAL FINANCIAL ACCOUNTING  
STANDARDS (SFFAS) 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

**Interpretation of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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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. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. 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 and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [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](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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## Federal Accounting Standards Advisory Board

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### ISSUE DATE

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

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Interpretation of Statement of Federal Financial Accounting Standards, entitled *Interpretation: Improving Management’s Discussion and Analysis, An Interpretation of Statement of Federal Financial Accounting Standards (SFFAS) 15, Management’s Discussion and Analysis*. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by **DUE DATE**.

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. Please provide your comments by email to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
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We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

D. Scott Showalter  
Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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This Interpretation proposes guidance to help general purpose federal financial report (GPFFR) users to better understand the results of operations and financial position of federal reporting entities.

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

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Reporting entities need discretion to structure their MD&A in a manner most appropriate for their GPFFR users. Reporting entity missions are established in various laws enacted over time. As a result, the scope and nature of their services can be diverse, involving a complex network of operations and activities. While discretion in structuring MD&A is needed, GPFFR users need information about the reporting entity's services to assist them in assessing the entity's results of operations and financial position.

SFFAS15, paragraph 2, states that 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. This proposed Interpretation would explain that, considering the complexity of reporting entity operations, SFFAS 15 does not preclude reporting entities from structuring MD&A in a manner most appropriate for addressing these topics as long as the MD&A assists users in understanding the nature of the services provided and the impact of providing those services on the entity's results of operations and financial position.

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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 below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals 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 are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to 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 regarding implementing this proposal.

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

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Washington, D.C. 20548

All responses are requested by [insert date].

Q1. The proposed Interpretation clarifies the SFFAS 15 requirement for sections within MD&A and states that reporting entities have discretion in structuring MD&A in a manner most appropriate for addressing the required topics. Refer to paragraphs 2 through 4.

**Do you agree or disagree with the proposed clarification of SFFAS 15? Please provide the rationale for your answer.**

Q2. The proposal also discusses that while reporting entities have discretion in structuring MD&A, reporting entities should assist GPFFR users in understanding the reporting entity’s results of operations and financial position. Although a reporting entity’s GPFFR presents consolidated information, the reporting entity may administer several diverse services. Users need information about services to help them evaluate the entity’s results of operations and financial position. The proposal discusses circumstances when reporting entities should discuss the nature of its services. Refer to paragraph 5.

**Do you agree or disagree with the proposed requirement to assist users in understanding the nature of the services provided and their impact the entity’s results of operations and financial position? Please provide the rationale for your answer.**

Q3. [Placeholder for an additional question]

## PROPOSED INTERPRETATION

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### SCOPE

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1. This Interpretation applies to federal entities that present a GPFFR, 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*.

### INFORMING GPFFR USERS THROUGH MD&A

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2. MD&A communicates management's insights about the reporting entity, increases the understandability and usefulness of the GPFFR, and provides accessible information about the reporting entity and its operations, service levels, successes, challenges, and future. SFFAS 15 states that 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.<sup>1</sup> The intent of this requirement is to ensure GPFFR users are provided with relevant information on the listed topics in a clear and logical manner. Reporting entities, however, have discretion to structure the information in a manner most appropriate for addressing the required topics.
3. Sections may be presented in a variety of ways and need not be presented in the order listed in SFFAS 15. Sections should be arranged in a logical manner so that information on each of the listed topics is provided. Information on the listed topics may be provided in a single section or through multiple integrated sections or sub-sections. For example, information on performance objectives and results may be provided in a single section for the entire reporting entity and its major programs or it may be provided in multiple sections if the entity organizes MD&A by major program; the information should not be duplicative, but should be program specific. Section headings and sub-headings may be used to assist users in following the flow of the discussion and understanding MD&A.
4. Reporting entities may structure MD&A to focus on the entity's results of operations and financial position as a means to connect related matters. For example, a reporting entity's results of operations and financial position may have been impacted by a change in its budget authority and level of services. Repeating details of this matter in separate sections entitled "Performance Results" and "Financial Statements" could obscure other relevant information regarding its results of operations and financial position. Reporting entities could instead discuss its results of operations and financial position in a general section about the change in budget authority and service level.
5. While reporting entities have discretion in structuring MD&A, MD&A should assist users in understanding the entity's results of operations and financial position. Reporting entities administer diverse services and users need information about those services to evaluate the

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<sup>1</sup> SFFAS 15, paragraph 2.

entity's results of operations and financial position. Reporting entities should discuss the nature of their services or other component level information in MD&A when:

- a. an entity-wide discussion would present an incomplete or misleading perspective of the reporting entity, such as when existing, currently-known demands, risks, uncertainties, events, conditions and trends relate to a particular service;
- b. a service or other sub-component contributes disproportionately to the net cost of operations; or
- c. the entity's budgetary resources primarily relate to a particular service or other sub-component.

## 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 proposed Interpretation. 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 proposed Interpretation—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This proposed Interpretation 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 proposed Interpretation. The authoritative sections of the proposed Interpretation 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. The Board initiated the project to improve the MD&A section of GPFFRs. MD&A standards require the discussion of specific topics in sections of MD&A and reporting entities generally interpreted this to be a prescribed structure of discrete sections. The Board, however, noted that reporting entities need a flexible framework to help users fully understand the entity's results of operations and financial position. Reporting entities have complex operations and provide diverse services. Also, some reporting entity matters involve interrelated topics, such as changes in the entity's budgetary resources. Adhering to a structure of discrete sections for a discussion on the entity's mission, performance, financial statements, systems and controls, and legal compliance could result in discussing a matter multiple times and obscuring other information relevant to users.
- A2. While reporting entities need a flexible framework, reporting entities also need to help users better understand the reporting entity's results of operations and financial position. MD&A should help users understand the reporting entity's GPFFR<sup>2</sup> which consolidates diverse services. To evaluate the entity's results of operations and financial position, users may need general information on the entity's services and more detailed information on those services that primarily impact the consolidated amounts depicted. For example, a trend of increasing net cost of operations may be due to circumstances involving a single service. Information about the service would help users understand the cause of the trend and the use of resources provided.
- A3. In addition, the Board has noted that users are interested in information about reporting entity services<sup>3</sup> and the Operating Performance objective of financial reporting states that users need information about
  - a. the costs of providing specific programs and activities and the composition of and changes in these costs,<sup>4</sup>

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<sup>2</sup> Statement of Federal Financial Accounting Concepts (SFFAC 3), *Management's Discussion and Analysis*.

<sup>3</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, paragraph 59.

- b. the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs,<sup>5</sup> and
  - c. the efficiency and effectiveness of the government's management of its assets and liabilities.<sup>6</sup>
- A4. Discussing information about services in MD&A could help users become better informed about the impact of certain services on entity operations.

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<sup>4</sup> SFFAC 1, *Objectives of Federal Financial Reporting*, paragraph 126.

<sup>5</sup> SFFAC 1, paragraph 128.

<sup>6</sup> SFFAC 1, paragraph 128.

## APPENDIX B: ABBREVIATIONS

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ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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