

Memorandum

MD&A

November 29, 2021

To: Members of the Board
From: Robin M. Gilliam, Assistant Director
Thru: Monica R. Valentine, Executive Director

Subject: **Draft MD&A Exposure Draft** (Topic D)

INTRODUCTION

The management's discussion and analysis (MD&A) project consolidates the Statement of Federal Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, standards-based concepts, with the Statement of Federal Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, standards to provide updated MD&A standards. The draft MD&A exposure draft [Attachment 2] provides the proposed updated MD&A standards and proposes to rescind SFFAS 15.

REQUEST FOR FEEDBACK BY DECEMBER 7, 2021

Prior to the Board's December meeting, please review the attached *draft MD&A exposure draft* and respond to the ensuing question by December 7, 2021.

For additional information, questions, or suggestions, please contact us as early as possible at gilliamr@fasab.gov with a cc to Monica Valentine at valentinem@fasab.gov.

NEXT STEPS

Pre-ballot the MD&A exposure draft in February 2022.

ATTACHMENTS

1. Staff Recommendation & Analysis
2. MD&A draft exposure draft

Staff Recommendation & Analysis

MD&A

November 29, 2021

Attachment 1

CONTEXT

At the August 2021 Board meeting, members agreed that MD&A standards should be broad based to provide a holistic perspective; define terms to help users better understand the content/context, and organize related standards by themes. The Board suggested one theme on how to present information in MD&A, such as including charts and graphs, as well as references. Also suggested was a theme on what information to include in MD&A and another theme on financial condition.

Members reviewed the proposed MD&A standards to finalize the wording for the following proposed standards:

1. MD&A should summarize the entity's mission, organizational structure, and key performance challenges and achievements.
2. MD&A should summarize the reporting entity's financial position by explaining significant changes in assets, liabilities, net position, and budgetary/financing resources over the prior reporting period; and significant financial trends over prior reporting periods.
3. MD&A should concisely explain reasons for significant changes in net cost as it relates to performance challenges and achievements from the prior reporting period and any significant trends over multiple years.
4. MD&A should identify significant weaknesses in systems and controls that could affect the entity's ability to produce reliable financial information, and the plans to address non-compliance and weaknesses in internal control over financial information.
5. MD&A should summarize how key opportunities & risks may have a significant effect on, budgetary and financial resources, and key performance results in the future, and plans to pursue opportunities and mitigate risks.

Members discussed a number of options to identify which reporting entities should include a discussion about financial condition in their MD&A. Members were concerned

about not creating additional burden for reporting entities. Therefore, staff drafted this proposed standard that can be found in the draft MD&A exposure draft:

The Financial Report of the United States Government should also include a discussion and analysis of the financial condition of the United States government to include the reporting entities that materially contributed to the nation's current and future well-being.

RECOMMENDATION

Review the Draft MD&A Exposure Draft

Staff recommends the Board review the draft MD&A exposure draft and provide final technical comments and edits in preparation for a pre-ballot in February 2022.

ANALYSIS

OUTREACH EFFORTS

The Board has deliberated the updating of the MD&A standards since June of 2019. Before developing the proposed standards, the Board developed 11 MD&A standards and the MD&A vision framework (the framework). Between January and March 2021, staff conducted a pilot with 17 agencies that test drove the MD&A objectives and framework to develop streamlined sample MD&As. 16 users then reviewed the streamlined MD&A samples against the MD&A objectives and framework.

Staff believes that the 17 streamlined agency MD&A samples and 16 user reviews provided adequate feedback for members to develop the proposed MD&A standards. The following pilot feedback provided members with the additional information needed to develop the proposed MD&A standards.

The pilot feedback explained that MD&A objectives and framework helped to

- develop a comprehensive connection between performance, non-financial and financial information, and systems information without the silo effect of putting information into separate sections;
- focus on key drivers (like COVID) that impacted performance goals, significant changes in financial statement lines, and management's decisions during the reporting period;
- include high-level performance goals that support the current leadership agenda instead of low-level metrics;

- include well labeled trend graphs that integrate performance, financial, and budgetary resource information, and written summaries; and
- include more hyperlinks to detailed performance data and other important documents.

In August 2021, members finalized most of the proposed standards. Staff then drafted the MD&A exposure draft. Based on the amount of feedback received from the pilot agencies and the user reviewers, staff does not plan to form an MD&A task force at this time.

REVIEW DRAFT MD&A EXPOSURE DRAFT

Staff recommends the Board review the proposed updated MD&A standards in preparation for a pre-ballot in February 2022. The exposure draft will provide the Board and staff an opportunity for additional stakeholder feedback.

Once the updated MD&A standards are released as final, staff plans to develop implementation guidance, including best practice MD&A examples.

Question for the Board:

Do members have any comments or suggested revisions to the draft MD&A exposure draft?

Please return Attachment 2 with your edits and comments.



STREAMLINING MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING SFFAS 15, MANAGEMENT'S DISCUSSIONS AND ANALYSIS

Statement 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

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:

- [“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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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 Statement of Federal Financial Accounting Standards, entitled *Streamlining Management’s Discussion and Analysis*. Specific questions for your consideration appear on [page 6](#), 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 the FASAB are considered public information. Those comments may be posted to the 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. If you are unable to e-mail your responses, please contact us at 202.512.7350.

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 that it 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,

George A. Scott
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing updated Management's Discussions and Analysis (MD&A) standards to reduce preparer burden by focusing the MD&A on significant changes to amounts in financial statements and supplemental information resulting from management of operating performance for the reporting entity as a whole and any mission-related programs, functions, and/or activities. The proposal would streamline management's discussion and analysis (MD&A) in a manner most appropriate for communicating with its general purpose federal financial report (GPFFR) users in relation to a reporting entity's size and mission.

The Board is proposing to rescind SFFAS 15, *Management's Discussions and Analysis*, to remove the rigid sections structure. The proposed standards will include requirements that allow for more flexibility in how to tell a holistic story about the reporting entity's financial position and condition as it relates to performance.

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

The Board believes MD&A is an important vehicle to communicate management's insights about the reporting entity's mission, organization, and key financial and performance information to increase the understandability and usefulness of the GPFFR. The Board's goal is to provide guidance on how reporting entities can tell a streamlined holistic story about their mission and operations and better optimize the MD&A's value to users. To that end, reporting entities need flexibility so that users of the GPFFR can best understand the scope and nature of their mission-related programs that may be diverse, complex, and cut across multiple locations.

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QUESTIONS FOR RESPONDENTS

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 for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350.

All responses are requested by **[insert date]**.

- Q1. The Board is proposing to rescind SFFAS 15 and update MD&A standards. Please refer to paragraphs 3 and 8-18.

Do you agree or disagree with the proposed standards? Please provide the rationale for your answer.

- Q2. The Board is proposing new definitions. Please refer to paragraphs 4-7.

Do you agree or disagree with the proposed definitions? Please provide the rationale for your answer.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present 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*.
2. This Statement provides standards for reporting entity management to develop a balanced, integrated, and concise financial and non-financial discussion and analysis about a reporting entity's financial position and condition and the current actions and plans to improve performance.
3. MD&A is required supplementary information (RSI).¹

RECISSION OF SFFAS 15

4. This paragraph rescinds SFFAS 15, *Management's Discussions and Analysis*, in its entirety. The standards proposed in this statement provide updated Management's Discussions and Analysis (MD&A) guidance.

DEFINITIONS

5. **Financial position** – The account status of a reporting entity's assets, liabilities, net position, and budgetary resources as reflected in the financial statements.
6. **Financial condition** – A reporting entity's current operations and performance conditions, as well as forward-looking expectations that contribute to the nation's current and future financial and non-financial well-being.
7. **Key Performance Challenges and Achievements** – high-level performance goals that support the current leadership agenda and what challenges management had encountered and what achievements were accomplished.
8. **Significant** – There are no numerical thresholds to consider in MD&A. While the financial statements include materially quantitative information, management should apply more judgment to what qualitative information to include in MD&A. For example, management should understand trending issues to determine what citizens are getting for their money and what qualitative information will be useful for interest groups.

¹ See SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information required supplemental information (RSI)* paragraph 73 for concepts about RSI.

9. Users process information through different methods. For example, some users may find charts and graphs easier to understand when discussing numbers and percentages, while others more easily understand a written description. In addition, in some instances, financial information is necessary, while for other types of information, non-financial information is appropriate. Therefore, these standards provide guidance on how to present information in MD&A to provide users with information in a variety of forms of communication for ease of understanding.
10. MD&A should include concise summaries of qualitative and quantitative information.
 - a. Quantitative information is appropriate if management discusses and analyzes information for how a balance was measured and recognized.
 - b. A qualitative summary is appropriate to explain the quantitative information.
 - c. Providing both a qualitative and quantitative summary will give users concise and easily understandable information.
11. MD&A should include financial and non-financial information.
 - a. Financial information is appropriate if management discusses and analyzes financial statement balances.
 - b. Non-financial information is appropriate if management discusses and analyzes information such as key performance challenges and achievements and weaknesses with systems and controls.
12. MD&A should include visual aids, such as charts, tables, or graphs .For example,
 - a. A pie chart may be appropriate to visually present what is included in assets, liabilities, or budgetary resources. For example, management might want to display how much COVID-19 funding was received as compared to other funding in budgetary resources.
 - b. A chart or table may be appropriate to communicate a significant change in a financial statement balance from the prior period and over multiple reporting periods. Such as, a reporting entity might have seen a significant increase in fund balance with treasury (FBWT). Management should include a discussion and analysis to explain the significant change. For example, how much COVID-19 funding was received and not yet used as of September 30 and why. Including a chart that compares the beginning balance with end of balance FBWT will provide a visual communication that makes it easier for users to understand the significant change.
13. MD&A should include references to websites or other areas of the agency financial report to provide additional information as necessary.
 - a. References will reduce the burden of providing information that is duplicative or not synchronized with the financial statements.
 - b. For example, providing a link with the summary about key performance challenges and achievements to Government Performance and Results Act (GPRA)

Modernization Act reporting should alleviate the need for preparers to reconcile the differences between the strategic and performance goals measured in February with the budget submission, to the financial statements which are reported as of September 30.

WHAT INFORMATION TO PRESENT IN MD&A

14. These standards provide the information required to include in MD&A without the confines of structured sections. Therefore, preparers have the flexibility to provide a more broad based holistic perspective of the reporting entity's financial report.
15. MD&A should summarize the entity's mission, organizational structure, and key performance challenges and achievements.
16. MD&A should summarize the reporting entity's financial position by explaining significant changes in assets, liabilities, net position, and budgetary/financing resources over the prior reporting period; and significant financial trends over prior reporting periods.
17. MD&A should concisely explain reasons for significant changes in net cost as it relates to performance challenges and achievements from the prior reporting period and any significant trends over multiple years.
18. MD&A should summarize how key opportunities & risks may have a significant effect on, budgetary and financial resources, and key performance results in the future, and plans to pursue opportunities and mitigate risks.
19. MD&A should identify significant weaknesses in systems and controls that could affect the entity's ability to produce reliable financial information, and the plans to address non-compliance and weaknesses in internal control over financial information.

FINANCIAL CONDITION

20. The Financial Report of the United States Government should also include a discussion and analysis of the financial condition of the United States government and include the reporting entities that materially contributed to the nation's current and future well-being.

EFFECTIVE DATE

21. The requirements of this Statement are effective for reporting periods beginning after September 30, 2023. Early implementation is allowed.

APPENDIX A: BASIS FOR CONCLUSIONS

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. The authoritative sections of the Statements 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

RESCISSION OF SFFAS 15

- A1. On June 8, 1999, FASAB published the Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, as part of the initial federal financial framework. The SFFAC 3 concepts were written using standards-based language instead of concepts-based language for MD&A. Given that concepts are not considered authoritative guidance in the GAAP hierarchy, SFFAC 3 could not require MD&A as part of the agency financial reports.
- A2. On August 12, 1999, FASAB published an outline of SFFAC 3, as standards in SFFAS 15, *Management's Discussions and Analysis*, to require MD&A as part of the agency financial report. The Board expected agencies to use SFFAC 3 in conjunction with SFFAS 15 to prepare MD&As. Practice has shown that agencies have only used SFFAS 15 for preparing MD&As and the standards-based language in SFFAC 3 is ignored.
- A3. This statement rescinds SFFAS 15 and the Board's work on the current MD&A project proposes to consolidate the standards from SFFAC 3 and SFFAS 15 into updated MD&A standards. [See discussion in the *Developing Updated MD&A Standards* section below.]

DEVELOPING UPDATED MD&A STANDARDS

- A4. The Board added the management's discussion and analysis (MD&A) project to its agenda in June 2019 to merge work completed by the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements projects.
- A5. The Board's goals for the MD&A project are to streamline the MD&A, reduce preparer burden, and provide users with easy to understand information about an agency's financial position and condition.
- A6. From August 2019 through June 2020, the Board developed 11 MD&A objectives based on the four reporting objectives in SFFAC 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and controls, and a review of SFFAC 3. [See Appendix B]

Underlying Concepts

- A7. SFFAC 1, Introduction, paragraph 1 states: This document is a conceptual statement on the objectives of financial reporting by the federal government. It focuses on the uses, user needs, and objectives of such reporting.
- A8. SFFAC 1, Introduction, paragraph 3 states: The objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability, (2) provide useful information, and (3) help internal users of financial information improve the government's management.
- A9. SFFAC 1, Introduction, paragraph 4 states: The objectives reflect the federal environment. They also consider many of the needs expressed by current and potential users of federal financial information. They provide a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner.

Four Reporting Objectives

A10. Budgetary Integrity

- a. SFFAC 1, paragraph 13 states: Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine
 - i. how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
 - ii. the status of budgetary resources, and
 - iii. how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.
- b. The Board identified the following MD&A objectives for budgetary integrity based on these concepts.
 - MD&A should concisely explain financing resources and the sources and status of budgetary resources.
 - MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.

A11. Operating Performance

- c. SFFAC 1, paragraph 14 states: Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine
 - i. the costs of providing specific programs and activities and the composition of, and changes in, these costs;
 - ii. the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
 - iii. the efficiency and effectiveness of the government's management of its assets and liabilities.
- d. The Board identified the following MD&A objectives for operating performance based on the concepts:
 - MD&A should concisely explain if significant costs contributed to agency performance.
 - MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.
 - MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.
 - MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRAMA reporting, for the entity's major program investments and the entity as a whole.

A12. Stewardship

- e. SFFAC 1, paragraph 15-16 states: Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether
 - i. the government's financial position improved or deteriorated over the period,
 - ii. future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and

- iii. government operations have contributed to the nation's current and future well-being.
- f. The Board identified the following MD&A objectives for stewardship based on the objectives:
 - MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.
 - MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.

A13. Systems and Control

- g. SFFAC 1, paragraph 17 states: Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that
 - i. transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;
 - ii. assets are properly safeguarded to deter fraud, waste, and abuse; and
 - iii. performance measurement information is adequately supported.
 - h. The Board identified the following MD&A objectives for systems and control:
 - MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.
 - MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses.
- A14. The Board then prepared a draft MD&A vision framework to consolidate and remove any duplication from the 11 MD&A objectives. Then pilot agencies tested the MD&A objectives and vision framework. [See Appendix C]
- A15. Staff conducted a pilot from January through March 2021, with 17 pilot agencies and 16 user reviewers to determine if the MD&A objectives and draft MD&A vision framework could streamline the MD&A and provide an easily readable and understandable report.
- A16. The Board reviewed the pilot results in June 2021 and agreed that the MD&A objectives and vision was a good framework for updating the MD&A standards.

Definitions of Relevant Terms

- A17. The Board defined “financial position” to include a discussion and analysis about reporting entities’ balance sheet and budgetary/financial resources.
- A18. The Board defined “financial condition” to include a discussion and analysis about the financial and non-financial well-being of the U.S. Government.
- A19. The Board defined “key performance challenges and achievements” to identify what performance metrics management should focus the discussion and analysis on in MD&A.
- A20. The Board defined “significant” to distinguish it from materiality and help management to determine what information to include in MD&A.

The Updated MD&A Standards

- A21. After the pilot, the Board developed broad based MD&A standards to provide a holistic perspective without the confines of specific sections.
- A22. The Board placed the updated standards into three themes: *How to Present MD&A Information*, *What Information to Present in MD&A*, and *Financial Condition*.
- A23. The standards in *How to Present MD&A Information* provide guidance the pilot agencies and user reviewers requested on how to present information using a variety of communication forms for user ease of understanding. The Board based these standards on this pilot feedback:
 - a. develop a comprehensive connection between performance, non-financial and financial information, and systems information without the silo effect of putting information into separate sections;
 - b. focus on key drivers (like COVID-19) that impacted performance goals, significant changes in financial statement lines, and management’s decisions during the reporting period;
 - c. include high-level performance goals that support the current leadership agenda instead of low-level metrics;
 - d. include well labeled trend graphs that integrate performance, financial, and budgetary resource information, and written summaries; and
 - e. include more hyperlinks to detailed performance data and other important documents.
- A24. The standards in *What Information to Present in MD&A* will guide agencies on what to discuss and analyze about performance, financial position, risk and forward-looking activities, and weaknesses with internal controls. The Board based these standards on the MD&A objectives developed from the four reporting objectives—budgetary integrity,

operating performance, stewardship, and systems and control—and the MD&A vision framework used in the pilot to develop sample MD&As.

- A25. The standard in *Financial Condition* provides a distinct discussion and analysis only for the U.S. Government's MD&A, separate from the financial position discussion and analysis. This standard is based on the following underlying concepts:

SFFAC 1: Stewardship, Objective 3

- a. Paragraph 134: Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.
- b. Paragraph 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions...
- c. Paragraph 144: [stewardship] ... imply a concern with "financial condition," as well as "financial position." Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself. For example, reports intended to help meet this objective might address users' needs for information about
 - investments in (or expenditures for) research and development, military readiness, and education;
 - changes in the service potential of infrastructure assets;
 - spending for consumption relative to investments;
 - opportunities for growth-stimulating activities; and
 - the likelihood of future inflation.

APPENDIX B: MD&A OBJECTIVES

General

1. MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to, unfunded, unobligated, and net cost of operations.

Budgetary Integrity

2. MD&A should concisely explain financing resources and the sources and status of budgetary resources.
3. MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.

Operating Performance

4. MD&A should concisely explain if significant costs contributed to agency performance.
5. MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.
6. MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.
7. MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRAMA reporting, for the entity's major program investments and the entity as a whole.

Stewardship

8. MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.
9. MD&A should concisely describe planned agency actions to address current and prospective mission-related issues, challenges, and/or risks that could significantly affect assets, liabilities, costs, revenues, and budgetary resources.

Systems and Control

10. MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.
11. MD&A should also include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses.

APPENDIX C: MD&A VISION FRAMEWORK

MD&A Vision Statement: MD&A should summarize information about the financial position and condition of the reporting entity by discussing the entity's mission, organization, and key financial and performance results to inform users of its financial health and sustainability of major programs.

Therefore, MD&A should be an objective, concise, and easily readable summary analysis of

- I. the essential few matters causing significant changes to the entity's (1) financial statement amounts during the current reporting period and (2) financial, budgetary and key performance trends over past reporting periods;
- II. the current and planned actions that will address the essential few opportunities, challenges, and risks that could significantly affect financial statement amounts and key performance results in the future; and
- III. the essential few conditions related to systems and controls that could affect the entity's ability to produce reliable financial information.

MD&A may also include references to websites or other areas of the agency financial report that provide additional information when applicable.

APPENDIX C: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
MD&A	Management's Discussions and Analysis
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

APPENDIX E: GLOSSARY

Financial position – The account status of a reporting entity’s assets, liabilities, net position, and budgetary resources as reflected in the financial statements.

Financial condition – A reporting entity’s current operations and performance conditions, as well as forward-looking expectations that contribute to the nation’s current and future financial and non-financial well-being.

Key Performance Challenges and Achievements – high-level performance goals that support the current leadership agenda and what challenges management had encountered and what achievements were accomplished.

Significant – There are no numerical thresholds to consider in MD&A. While the financial statements include materially quantitative information, management should apply more judgment to what qualitative information to include in MD&A. For example, management should understand trending issues to determine what citizens are getting for their money and what qualitative information will be useful for interest groups.

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