

## Memorandum

### MD&A

February 4, 2022

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

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

### INTRODUCTION

The management's discussion and analysis (MD&A) project consolidates the Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*, standards-based concepts, with the Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, standards. Staff has addressed all technical issues raised by the Board, from the project's inception in June 2019 through December 2022 to achieve this consolidation. Therefore, staff presents the consolidated and amended standards in the pre-ballot exposure draft, *Management's Discussion and Analysis Amended* as Attachment 2.

### REQUEST FOR FEEDBACK BY FEBRUARY 11, 2022

Please review the pre-ballot exposure draft: *Management's Discussion and Analysis Amended* **prior to the Board's February meeting**. Staff requests responses to the ensuing questions by **February 11, 2022**.

As a reminder, a pre-ballot offers members an opportunity to provide minor edits and not substantive changes.

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

## **NEXT STEPS**

Staff will incorporate minor edits in the pre-ballot exposure draft based on feedback received in advance of and during this meeting in preparation for balloting the MD&A exposure draft.

## **ATTACHMENTS**

1. Staff Analysis
2. Pre-ballot Exposure Draft: *Management's Discussion and Analysis Amended*

# Staff Analysis MD&A

February 4, 2022

Attachment 1

## CONTEXT

Staff incorporated final substantive edits and comments into the MD&A exposure draft—standards and basis for conclusions—based on Board discussions at the December 14, 2021, meeting.

## SUMMARY OF STAFF ANALYSIS

Staff has finalized substantive edits and updated the pre-ballot MD&A ED as follows:

1. Staff replaced the definition section with descriptions of terms included in the standards. This change is the result of
  - a. members requesting that significant and performance be removed from the definition section and instead included in the description of the standards;
  - b. staff's analysis that financial position and financial condition do not require formal definitions and a discussion in the proposed standards would be adequate, because
    - i. no consensus has been reached during FASAB history to define these terms in other statements;
    - ii. SFFAC 1 & 8 provided adequate explanations and guidance for members to develop the proposed standards; and
    - iii. staff has referenced and discussed the related concepts in the Basis for Conclusions.
2. Paragraphs 6 and 7 - themes: The Board requested that standards be organized in two themes; one on what information to include in MD&A and the other on how to include the required information.
  - a. Paragraph 6 discusses the first theme: *Information to Discuss and Analyze in MD&A*. This theme includes standards on what information is required in MD&A. Staff changed this from *Information Presented in MD&A*, to avoid confusion with using the word “present” too often.

- b. Paragraph 7 discusses the second theme: *Presenting Information in MD&A*. This theme includes standards that provide guidance on how the required information in paragraph 6 should be presented.
3. Paragraph 6b - performance: staff updated *key performance challenges and achievements* to read *key performance achievements and challenges* per members' request to focus the discussion and analysis on what results were achieved. Staff has included related concepts in the Basis for Conclusions.
4. Paragraph 6c - financial position: the Board agreed to include budgetary resources, beyond the industry balance sheet definition. Members added budgetary resources because it is a measure of financial position for the federal government environment. Staff has included these concepts in the Basis for Conclusions.
5. Paragraph 6 d.i –risk: staff included *key opportunities and risk* as part of the financial condition discussion because risk is forward looking, which is a focus of financial condition.
6. Paragraph 7a - significance: based on member preferences, staff changed “meaningful” to “relevant”.
7. Appendix A - Basis for Conclusions: staff included information for each paragraph in 6 and 7 to explain the Board's reasoning for the proposed standards and underlying concept(s).

Staff presents *Management's Discussion and Analysis Amended* in Attachment 2 as a pre-ballot exposure draft that includes all member's substantive technical issues, edits, and concerns.

As such, this pre-ballot provides Board members with an opportunity to review the document in its entirety before balloting. As a reminder, the pre-ballot offers members the opportunity to provide minor edits and not substantive changes because all technical matters were brought up and addressed at prior deliberations.

### **Questions for the Board:**

#### **1. Do members have any minor edits for the pre-ballot MD&A exposure draft?**

- Please return Attachment 2 with your minor edits.
- Staff requests that technical issues not be repeated, as they have already been addressed by the Board.

#### **2. Do members approve the pre-ballot MD&A Exposure Draft.**



# MANAGEMENT'S DISCUSSION AND ANALYSIS AMENDED

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](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: 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 *Management’s Discussion and Analysis Amended*. 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 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 respond by email, 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

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### WHAT IS THE BOARD PROPOSING?

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The Board is proposing to rescind SFFAS 15, *Management's Discussions and Analysis* and amend Management's Discussion and Analysis (MD&A) standards. By rescinding SFFAS 15, the Board is removing the section structure that requires reporting entities to address the entity's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance in separate sections. This requirement has encouraged a segregation of information about the reporting entity's general purpose federal financial report (GPFFR) that added duplication, density, and difficulty for users to read and understand MD&As.

The Board is proposing to amend MD&A standards to allow more flexibility for presenting information about the reporting entity's financial position and financial condition as it relates to mission and key performance results. To accomplish this the Board is proposing two themes: 1) *Information Discussed And Analyzed in MD&A*, and 2) *Presenting Information in MD&A*. In the first theme, *Information Discussed and Analyzed in MD&A*, the Board proposes what information a reporting entity should include in MD&A as it relates to financial condition and financial position. In the second theme, *Presenting Information in MD&A*, the Board proposes how to present this information.

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

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The Board's vision is to improve guidance on how reporting entities can tell a streamlined holistic story about its financial position and financial condition as it relates to mission, organization, and performance to better optimize the MD&A's value to users. The Board's vision also includes information that includes current and future plans to enhance achievements and address challenges.

The proposed amended MD&A standards are an important vehicle to communicate management's insights about the reporting entity's GPFFR to enhance the understandability and usefulness of the MD&A.

Reporting entities need flexibility so that users of the GPFFR can best understand the scope and nature of mission-related programs that may or may not be diverse or complex, affecting one or many reporting entities. Therefore, the proposed amended MD&A standards will improve guidance for management to scale the MD&A in relation to what is most appropriate to a reporting entity's size and mission.



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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 for your use at <https://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 contact us at (202) 512-7350.

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

- Q1. The Board is proposing to rescind SFFAS 15 and amend MD&A standards. Please refer to paragraphs **5 - 8**.

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

- Q2. The Board is proposing what information to include in *Information Discussed and Analyzed in MD&A*. Please refer to paragraphs 6 a-e.

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

- Q3. The Board is proposing how to present information in *Presenting Information in MD&A*. Please refer to paragraphs 7 a - f.

**Do you agree or disagree with the structure of the proposed statement? Please provide the rationale for your answer.**

## PROPOSED STANDARDS

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### SCOPE

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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. A GPFFR in conformance with federal accounting principles should include a management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).<sup>1</sup>
4. This Statement provides standards for management to develop a balanced, integrated, and concise MD&A.

### RECISSION OF SFFAS 15

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

### INFORMATION DISCUSSED AND ANALYZED IN MD&A

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6. MD&A should include information about the reporting entity's financial position, financial condition, mission, organization, and key performance results by including the following:
  - a. MD&A should summarize the reporting entity's mission, organizational structure, and key performance challenges and achievements.
  - b. MD&A should concisely explain reasons for significant changes in net cost as it relates to key performance achievements and challenges from the prior reporting period and any significant trends over multiple years.
  - c. MD&A should include information about the reporting entity's financial position by explaining significant changes in financial measures, to include assets, liabilities, net

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

position, and budgetary/financing resources over the prior reporting period; and significant trends over prior reporting periods.

- d. MD&A should include information about financial condition by explaining how a reporting entity's financial position and key performance results contributed to and will contribute to the sustainability and well-being of the reporting entity's mission.
  - i. Because financial condition is also forward-looking, MD&A should summarize how key opportunities and risks may have a significant effect on budgetary and financial resources, and key performance accomplishments and challenges in the future and plans to pursue opportunities and mitigate risks.
  - ii. The MD&A of the Financial Report of the United States Government should include a discussion about the reporting entities that materially contributed to the nation's current and future well-being.
- e. 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.

## PRESENTING INFORMATION IN MD&A

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- 7. MD&A is RSI that provides a broad-based holistic perspective of the reporting entity's financial statements based on currently known facts, decisions, or conditions, and therefore should present information as follows:
  - a. MD&A should present information that is significant, i.e. extremely important and relevant for a user to understand a reporting entity's mission, organizational structure, financial position, financial condition, and key performance results in terms of achievements and challenges in relation to its strategic plan.
  - b. MD&A should present information about efforts, costs, and accomplishments of the reporting entity's key performance results; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.
  - c. MD&A should present concise summaries of qualitative and quantitative information that is relevant to MD&A users.
  - d. MD&A should present financial and non-financial information.
    - i. Financial information is appropriate when management discusses and analyzes financial statement balances.
    - ii. Non-financial information is appropriate when management discusses and analyzes information such as key performance challenges and achievements and weaknesses with systems and controls.
  - e. MD&A may present visual aids, such as charts, tables, and graphs for when it is necessary to better enhance a user's understanding of the information.

- f. MD&A may present references to other reports, websites, or other areas of the agency financial report to provide additional information as necessary, and reduce the burden of providing information that is duplicative or not synchronized with the financial statements.

## EFFECTIVE DATE

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

## 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. 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

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- 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. The standards-based language in SFFAC 3 has been ignored by preparers because concepts are non-authoritative and guides the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

### RESCISSION OF SFFAS 15

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- A3. The Board proposes to rescind SFFAS 15 to consolidate the standards-based language found in SFFAC 3 and standards in SFFAS 15 into the proposed amended MD&A standards.

### DEVELOPMENT OF PROPOSED AMENDED MD&A STANDARDS

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- 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 financial condition.
- A6. The Board worked on its vision for MD&A from August 2019 through June 2020, by developing 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.
1. The Board identified the following MD&A objectives for budgetary integrity<sup>2</sup>:
    - a. MD&A should concisely explain financing resources and the sources and status of budgetary resources.
    - b. MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.
  2. The Board identified the following MD&A objectives for operating performance:<sup>3</sup>
    - a. MD&A should concisely explain if significant costs contributed to agency performance.
    - b. MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.
    - c. 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.
    - d. 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.
  3. The Board identified the following MD&A objectives for stewardship:<sup>4</sup>
    - a. MD&A should concisely explain reasons for significant changes in assets, liabilities, costs, and/or revenues from the prior year and any significant trends.
    - b. 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.

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<sup>2</sup> SFFAC 1, paragraph 13

<sup>3</sup> SFFAC 1, paragraph 14

<sup>4</sup> SFFAC 1, paragraphs 15-16

4. The Board identified the following MD&A objectives for systems and control:<sup>5</sup> MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.
  5. 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.
  6. The Board identified the following general objective: 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.
- A7. The Board then prepared the following draft MD&A vision framework to consolidate and remove any duplication from the 11 MD&A objectives.
- 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
    - 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;
    - 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
    - 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.
- A8. The Board requested a pilot to test the MD&A objectives and vision framework. The goals of the MD&A pilot and user review feedback were to 1) learn if the framework helped prepares to develop a streamlined sample MD&A; 2) determine if the sample MD&A provides users with a better understand of the agency’s financial position and condition; and 3) decide if the framework can be used to update and streamline the MD&A standards.
- A9. Staff conducted the pilot from January through March 2021.

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<sup>5</sup> SFFAC 1, paragraph 17



1. Seventeen pilot agencies created sample streamlined MD&As from the MD&A objectives and MD&A vision framework.
  2. Sixteen users then reviewed four sample MD&As to determine if the MD&A objectives and MD&A vision framework could produce a streamlined MD&A that was easy to read and understand.
- A10. The Board reviewed the pilot results in June 2021 and agreed that the MD&A objectives and MD&A vision framework were sufficient for developing the proposed amended MD&A standards.

## PROPOSED AMENDMENTS TO MD&A STANDARDS

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- A11. Based on pilot feedback, the Board
1. developed broad based MD&A standards to provide a holistic perspective without the confines of specific sections that found in SFFAS 15; and
  2. placed the proposed amended standards in two themes: *Information Discussed and Analyzed in MD&A*, and *Presenting Information in MD&A*.

## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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- A12. The proposed standards in *Information Discussed and Analyzed in MD&A* [paragraph 6 a- f] provide guidance on what information to include for a user to understand a reporting entity's mission, organization, key performance results, financial position, and financial condition.
- A13. For paragraphs 6a and 6b, the Board recognizes that to understand a reporting entity, user's need information about its mission, organizational structure, and key performance accomplishments and challenges and related cost impacts.
1. According to the MD&A vision framework and MD&A objectives, the information about mission and organizational structure should be minimal but enough to set the stage for the performance results achieved. This should allow agencies of different sizes to scale this information accordingly.
  2. For example, a large CFO reporting entity with multiple agencies may want to provide a summary paragraph of each agency and the interaction between them to accomplish key performance results. Whereas, a small agency, might only have to provide a summary paragraph or two of the mission as it relates to the key performance results.
  3. The Board believes the term "performance results" is too broad for MD&A. To address this concern the Board decided to refer to "performance accomplishments and challenges" instead of "performance results".

4. The following concepts informed the Board on developing the proposed performance accomplishments and challenges standard.

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

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government's management of its assets and liabilities.

- A14. For paragraph 6c, the Board recognizes that users need information on the financial position to understand the financial health of a reporting entity.

1. Although financial position is mentioned 147 times in the June 30, 2021, FASAB Handbook, the term is not defined. Therefore, to develop the proposed MD&A standards applicable to financial position, the Board started with an industry definition.

According to [Accounting Tools](#)

*Financial position is the current balances of the recorded assets, liabilities, and equity of an organization. This information is recorded in the balance sheet, which is one of the financial statements. The financial position of an organization is stated in the balance sheet as of the date noted in the header of the report.*

2. The Board updated the industry financial position definition to map to federal financial reporting by
  - a. changing "equity" to "net position";
  - b. adding budgetary/financing resources because it is a measure of financial position for the federal government environment.
    - i. The following budgetary integrity reporting objective concepts informed the Board on adding budgetary/financing resources should be added to the proposed financial position standard:
    - ii. 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

- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
  - the status of budgetary resources, and
  - 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.
3. The following stewardship reporting objective concepts also informed the Board on developing the proposed MD&A financial position-related standard:
- a. SFFAC 1, paragraph 135...Federal financial reporting should provide information that helps the reader to determine:
  - b. SFFAC 1, paragraph 136.3A .Whether the government’s financial position improved or deteriorated over the period. Examples of information relevant to this objective include
    - the amount of assets, liabilities, and net assets (or net position);
    - an analysis of government debt, its growth, and debt service requirements;
    - changes in the amount and service potential of capital assets; and
    - the amount of contingent liabilities and unrecognized obligations (such as the probable cost of deposit insurance).
  - c. SFFAC 1, paragraph 137. Assessing whether the government’s financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits. The latter notion is sometimes referred to as “interperiod equity”.
- A15. For paragraph 6d: the Board recognizes that users also need information on the financial condition to understand the sustainability and well-being of a reporting entity. Therefore, the Board decided to distinguish financial condition from the financial position discussion and analysis.
- A16. The following stewardship reporting objective concepts informed the Board about the difference between financial position and financial condition:
1. SFFAC 1, paragraph 144: The stewardship reporting objective implies 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.
2. SFFAC 1, paragraph 145. Indicators of financial position, measured on an accrual basis, are the starting point for reporting on financial condition but must be supplemented in a variety of ways. For example, subobjective 3B<sup>6</sup> might imply reporting, among other things, a current law budget projection under a range of alternative assumptions. Reports intended to achieve subobjective 3C<sup>7</sup> might disclose, among other things, 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. Information on trends in total national wealth and income is also important.
  3. SFFAC 1, paragraph 180. As more environmental data are added to the core data, a concept that is broader and more forward-looking than “financial position” emerges. That concept is “financial condition.” For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population’s composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government’s financial condition.

A17. The following concepts informed the Board on developing the proposed financial condition standards:

*SFFAC 1: Stewardship, Objective 3 -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.*

1. SFFAC 1, 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.
2. SFFAC 1, 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...
3. SFFAC 1, paragraph 181: Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most

<sup>6</sup> SFFAC 1, paragraph 139. 3B. **Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.**

<sup>7</sup> SFFAC 1, paragraph 143. 3C. **Whether government operations have contributed to the nation’s current and future well-being.**

important of these is management's "discussion and analysis" of known trends, demands, commitments, events, and uncertainties...

4. SFFAC 8, paragraph 49: Users need information to assess the financial condition of component reporting entities that derive their funding primarily from sources other than through annual appropriations. Some component reporting entities may be delegated authority to carry on their activities similarly to private-sector businesses or maintain their operations and meet their liabilities from revenues received from sources outside of the government-wide reporting entity. Citizens rely on the services provided and are concerned about their sustainability.
- A18. For paragraph 6e: the Board recognizes that users need information on 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.
- A19. The following concepts informed the Board on developing the proposed internal control standard:
- SFFAC 1, paragraph 17: Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that
- 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;
  - assets are properly safeguarded to deter fraud, waste, and abuse; and
  - performance measurement information is adequately supported.

## PRESENTING INFORMATION IN MD&A

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- A20. Users process information differently. For example, some users may find visual presentations, such as charts and graphs easier to understand, while others may prefer an analytical narrative. These standards provide guidance on presenting information that is flexible in form and clear, concise, and balanced in content to provide users with a variety of forms of communication for ease of understanding. These proposed standards are how to present information for ease of understanding by users.
- A21. The Board developed paragraphs 7 a- f from preparer and reviewer pilot feedback (pilot feedback), as follows:
1. Pilot feedback requested the Board 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. As a result, the Board included the requirements in paragraph 6 to guide reporting entities on what to include in MD&A; and the requirements in paragraph 7 to explain how to provide the information. The Board included standards in paragraphs 6 and 7 to encourage a holistic, integrated discussion in MD&A.
  2. Pilot feedback requested the Board to focus on key drivers that impacted performance goals, significant changes in financial statement lines, and

management's decisions during the reporting period, and to include only high-level performance goals. As a result, the Board included this information paragraphs 7 a & b.

3. Pilot feedback requested the Board to explain the term "significant". As a result, the Board included paragraph 7a to explain that significant information in MD&A should only focus on what is extremely important and relevant.
4. Pilot feedback requested the Board to explain performance results in relation to what resources were used to achieve those results. As a result, the Board included paragraph 7b to explain what information should be included to understand how results were achieved.
5. Pilot feedback requested the Board to include qualitative and quantitative information. As a result, the Board included paragraph 7c to require qualitative and quantitative information that is relevant to users.
6. Pilot feedback requested the Board to include financial and non-financial information. As a result, the Board included paragraph 7d i and ii to require financial and non-financial information.
7. Pilot feedback requested the Board to include well-labeled trend graphs that integrate performance, financial, and budgetary resource information, and written summaries. As a result, the Board included paragraphs 7c and 7e.
8. Pilot feedback requested the Board to include more hyperlinks to detailed performance data and other important documents. As a result, the Board included paragraph 7f to reduce the burden of duplicating information and trying to synchronize information from another report that provides data on a different basis and timeframe.

## APPENDIX B: ABBREVIATIONS

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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
RSI	Required Supplemental Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States

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