

## Memorandum

### MD&A

April 12, 2022

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

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

### INTRODUCTION

Staff presents a draft exposure draft, *Management's Discussion and Analysis, Rescinding and Replacing SFFAS 15, Management's Discussions and Analysis* as Attachment 2.

### REQUEST FOR FEEDBACK BY APRIL 19, 2022

Please review the draft exposure draft *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15, Management's Discussions and Analysis* prior to the Board's April meeting. Staff requests responses to the ensuing questions by **April 19, 2022**.

**Please use the separate Word Attachment 4, Member Comment Form, to provide answers.**

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 continue to incorporate edits based on member feedback in preparation for a pre-ballot exposure draft MD&A.

### ATTACHMENTS

1. Staff Analysis
2. Draft Exposure Draft: *Management's Discussion and Analysis* clean version
3. Draft Exposure Draft: *Management's Discussion and Analysis* track changes
4. Member Comment Form

# Staff Analysis

## TOPIC C - MD&A

April 12, 2022

Attachment 1

### CONTEXT

Staff incorporated edits and comments into the draft MD&A exposure draft (ED) based on the Board discussions at the February 23 and 24, 2022 meetings. Staff presents recommended changes and analysis of updates for each section of the proposed ED.

### SUMMARY OF UPDATES, RECOMMENDATIONS, and ANALYSIS

- I. **STATEMENT TITLE:** Staff updated the title to remove the term “amended” and also added “and replacing” to the sub-title, to better represent that this proposed Statement will completely replace SFFAS 15. The updated title is *Management’s Discussion and Analysis: Rescinding and Replacing SFFAS 15, Management’s Discussions and Analysis*.

#### Question for the Board #1:

Do members agree with the updated title or have any comments or edits?

### II. EXECUTIVE SUMMARY:

#### A. THE BOARD’S VISION FOR MD&A

In the first paragraph of the *What is the Board Proposing?* section of the draft, staff included the terms “balanced, integrated, and concise” in the Executive Summary to focus on the Board’s vision for management’s discussion and analysis (MD&A).

## B. STREAMLINED HOLISTIC STORY

During the February 2022 meeting, the Board discussed clearly stating in the Executive Summary what behavior changes the Board would like agencies to make to their MD&A.

Staff believes the Board's intent is for MD&A to be a **streamlined holistic story**, which has been the governing idea throughout the MD&A project. However, some members are not comfortable with the use of the term "story". Therefore, staff presents the following analysis to help members come to a consensus on the terminology to support the Board's objective for how reporting entities should present information in the MD&A according to the proposed standards.

- To better understand these terms, staff presents the following definitions<sup>1</sup>:
  - **"streamlined"** is information *having been made simpler and more efficient or effective*;
  - **"holistic"** is *interconnected parts of a whole*.
  - **"story"** is *an account of events ...account of past events ...the evolution of something*.
  - **"narrative"** is *a spoken or written account of connected events; a story*.

**RECOMMENDATION:** Staff recommends that the Board retain the terminology "streamlined holistic" to encourage reporting entities in how to present information in the MD&A. "Streamlined" is about presenting content in MD&A in a simpler and more efficient and effective manner and NOT about reducing the number of standards. The phrase "streamlined holistic" is meant to encourage management to present a discussion and analysis that is simple and interconnected, rather than presenting information that is dense, duplicative, and separated into sections as outlined in the current SFFAS 15 MD&A standards.

Staff presents the following two options:

- **Option 1 – Streamlined holistic story** that is balanced, integrated and concise
- **Option 2 – Streamlined holistic narrative** that is balanced, integrated and concise

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<sup>1</sup> Definitions are based on content from <https://languages.oup.com/google-dictionary-en/>

Staff recommends option 2 because “narrative” better represents the Board’s intention for how reporting entities should discuss and analyze information as a written account of connected events in the MD&A.

**Question for the Board #2:**

**Which option do members prefer to encourage a change in MD&A reporting behaviors?**

**ADDITIONAL UPDATES**

Staff also made the following updates to the Executive Summary based on member comments and edits from the February 2022 Board meetings. The revised Executive Summary

- focuses on what the Board wants to achieve with the proposed standards, such as, including information on performance in relation to cost and achievements instead of a repeat of GPRA-MA<sup>2</sup> reporting requirements;
- discusses the incorporation of the standards-based language from SFFAC 3<sup>3</sup> into the proposed standards;
- includes footnotes to explain new terminology,
- integrates the discussion on the two themes; and
- notes that SFFAS 37<sup>4</sup> is not affected by these proposed standards.

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<sup>2</sup> Government Performance and Results Act-Modernization Act (GPRA-MA)

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

<sup>4</sup> *Statement of Federal Financial Accounting Standards (SFFAS) 37 Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*

**Question for the Board #3:**

**Do members agree with the Executive Summary or have any comments or edits?**

**III. QUESTIONS AND SCOPE SECTIONS**

Staff made minor editorial updates to these sections, as members had no additional edits at the February 2022 meeting.

**Question for the Board #4:**

**Do members agree with the Questions and Scope sections or have any comments or edits?**

**IV. PARAGRAPH 5: RECESSION AND REPLACEMENT OF SFFAS 15**

Staff updated the title and paragraph by adding “and replacement”. Staff updated the content by adding, “and replaces” and removed the term “amended” to explain what is being proposed.

**Question #5 for the Board:**

**Do members agree with updates to the Paragraph 5 title and content or have any comments or edits?**

**V. PARAGRAPH 6: INFORMATION DISCUSSED AND ANALYZED IN MD&A**  
(section title approved at February 2022 meeting)

Staff made the following updates based on member comments and edits from the February 2022 Board meeting:

- merged the content from paragraphs 6 and 6a into a revised paragraph 6 introduction to focus on the Board's vision of a balanced, integrated, and concise MD&A;
- added "vital few matters" to the Paragraph 6 introduction to encourage preparers to focus on streamlining information presented in the MD&A;
- added footnotes to explain "streamline holistic story," "significant," "significant trends," the term "key" in relation to performance achievements and challenges, "opportunities," "risks," and "sustainability financial statements";
- updated the standard on significant changes in net cost for reporting entities to discuss and analyze all significant changes, including performance, that significantly affected net cost;
- removed "significant weaknesses" and "non-compliance" from the systems and controls, and compliance standard; and
- updated the standard on financial condition to include only reporting entities that produce Sustainability Financial Statements.

**RECOMMENDATION:** Staff recommends updating the standards to a question format following the lead-in Paragraph 6.0 to support the Board's intention of encouraging management to produce an MD&A that is a streamlined holistic story with balanced, integrated, and concise information.

**Question #6 for the Board:**

**Do members agree with the updates to Paragraph 6 or have any comments or edits?**

**VI. PARAGRAPH 7: PRESENTING INFORMATION IN MD&A** (section title approved at February 2022 meeting)

Based on member comments and edits from the February 2022 Board meeting, staff incorporated the Board's vision to include the phrase "balanced, integrated, and concise," and focused paragraph 7 on how a reporting entity *could* report information, instead of how they *should* report information.

**Question #7 for the Board:**

**Do members agree with updates to Paragraph 7 or have any comments or edits?**

**VII. Basis for Conclusions**

Staff made the following updates to the Basis for Conclusions (BFC) based on member comments and edits from the February 2022 Board meeting:

- removed specific information about other SFFACs and information related to the MD&A pilot activity;
- provided a reference to the 11 MD&A objectives and draft MD&A framework that were used by pilot agencies to develop streamlined MD&As; and
- limited the discussion to how and why the Board developed these proposed standards.

**Question #8 for the Board:**

**Do members agree with updates to the Basis for Conclusions or have any comments or edits?**

**Please use the member comment form (attachment 4) to provide answers.**



Clean Version

# MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING AND REPLACING 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

### WHAT IS THE BOARD PROPOSING?

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The Board is proposing new standards that will support its vision for management to provide a discussion and analysis that is a streamlined holistic story<sup>1</sup> with balanced, integrated, and concise information. The proposed standards will allow flexibility in how reporting entities include information about the entity's financial position, financial condition, and performance results.<sup>2</sup> To accomplish this vision, the Board has incorporated standards-based language from SFFAC 3,<sup>3</sup> as well as lessons learned from the pilot, into the proposed standards.

The proposed standards will rescind and replace SFFAS 15<sup>4</sup>.

This proposal does not eliminate or otherwise affect SFFAS 37.<sup>5</sup>

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

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This proposed statement will improve federal financial reporting by providing standards to guide management in developing a streamlined holistic story for users to understand the financial position, financial condition, and performance results of a reporting entity through balanced, integrated, and concise information. For example, the Board envisions the MD&A to discuss performance achievements and challenges in terms of resources received and used; a repetition of Government Performance and Results Act-Modernization Act (GPRA-MA) statistical reporting information is not required because it does not map cost to performance information. Proposed standards will guide management on what to include for a user to understand the reporting entity's financial position as of the report date. Proposed standards will identify which reporting entities should report on financial condition. The proposed standards will also provide a variety of ways to present data that will help users to understand the information presented in MD&A, such as graphs and charts, financial and non-financial information, and qualitative and non-qualitative information.

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<sup>1</sup> A streamlined holistic story provides a discussion and analysis of significant events and information pertinent to the reporting entity's financial position and financial condition in a simple and interconnected manner.

<sup>2</sup> The Board may use the terms "performance results" and "performance accomplishments and challenges" interchangeably.

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

<sup>4</sup> Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*

<sup>5</sup> SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

The proposed standards are essential to meeting all four of the reporting objectives: budgetary integrity, operating performance, stewardship, and systems and control.

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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 proposes to rescind and replace SFFAS 15 with the proposed MD&A standards to provide management with the flexibility to communicate information that is balanced, integrated, and concise to help users understand the financial position, financial condition, and key results. Please refer to the proposed standards in paragraphs **5 - 8**.

**Do you agree or disagree that the proposed standards will provide management the flexibility to communicate financial position, financial condition, and key results in a balanced, integrated, and concise manner? 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.**

- Q4. **Are there specific aspects of the proposed standards, not addressed in Q1-3 that you wish to provide comments on?**

## 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>6</sup>
4. This Statement provides standards for management to develop a balanced, integrated, and concise MD&A.

### RECISSION AND REPLACEMENT OF SFFAS 15

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5. This paragraph rescinds and replaces SFFAS 15, *Management's Discussions and Analysis*, with the proposed Management's Discussions and Analysis (MD&A) standards in this Statement.<sup>7</sup>

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

<sup>7</sup> This Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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6. MD&A should include balanced, integrated, and concise information to present a streamlined holistic story<sup>8</sup> about the reporting entity's financial position and financial condition by discussing its mission, organization, and key financial and performance achievements and challenges<sup>9</sup> and including the vital few matters about the following:
- a. What caused significant<sup>10</sup> changes in assets, liabilities, net position, and budgetary and financing resources from the prior reporting period and significant trends<sup>11</sup> over multiple reporting periods?
  - b. What caused significant changes in net costs, including the relationship of the changes, if any, to key performance achievements and challenges, from the prior reporting period and any significant trends over multiple reporting period?
  - c. What opportunities<sup>12</sup> and risks<sup>13</sup> could significantly affect budgetary and financial resources in the future, and as a result key performance accomplishments and challenges?
  - d. What plans does the reporting entity have to pursue key opportunities and mitigate significant risks to encourage performance accomplishments?
  - e. How do the reporting entity's systems and controls, and compliance with federal laws and regulations contribute to producing reliable financial information?
  - f. What current and future plans does the reporting entity have to address any system and control weaknesses or noncompliance to provide reliable financial information?

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<sup>8</sup> A streamlined holistic story provides a discussion and analysis of significant events and information pertinent to the reporting entity's financial position and financial condition as simply and interconnected as possible.

<sup>9</sup> The Board may use the terms "performance results" or "performance accomplishments and challenges" interchangeably. Management should use judgement in identifying what performance achievements and challenges are **key** to the reporting entity's mission that users need to understand about in the MD&A. GPRA-MA reporting may be referenced, however, the MD&A should focus on how costs related to these key performance achievements and challenges that management wants to highlight in the MD&A.

<sup>10</sup> "Significant" for the purposes of MD&A, is information that is extremely important and relevant for a user to understand the reporting entity's financial statements and report.

<sup>11</sup> Management uses judgement to determine if any trends over multiple reporting periods have significantly contributed to improving or not improving the reporting entity's financial position and financial condition.

<sup>12</sup> "Opportunities" for the purposes of MD&A, is anything that may positively affect a reporting entity's ability to achieve its objectives.

<sup>13</sup> "Risks" for the purposes of MD&A, is the effect of uncertainty on a reporting entity's ability to achieve its objectives.



- g. In relation to financial condition, what caused significant changes in Sustainability Financial Statements<sup>14</sup> from the prior reporting period and significant trends over multiple reporting periods; and what plans do reporting entities have to address these significant issues?

## PRESENTING INFORMATION IN MD&A

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7. MD&A should be a streamlined holistic story that provides balanced, integrated, and concise information for a user to understand the reporting entity's financial position, financial condition, and performance results. To achieve a streamlined holistic story that is balanced, integrated, and concise, MD&A may include content that is qualitative and/or quantitative; financial and/or non-financial; visual aids, such as charts, tables, and/or graphs; and/or references to other reports, websites, or areas of the agency financial report<sup>15</sup>

## 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.

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<sup>14</sup> Sustainability Financial Statements include the Statement of Social Insurance, the Statement of Changes in Social Insurance, and Statement of Long-Term Fiscal Projections.

<sup>15</sup> References can be used when additional information is necessary, to help reduce the burden of duplicating information, or when information from other reports does not synchronize with the timing of the financial statements. For example, the due dates for referenced reports, such as GPRA-MA reporting are different from the financial statement reporting period, making comparison of information very difficult.

## 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.

### DEVELOPMENT OF PROPOSED MD&A STANDARDS - RESCISSION OF SFFAS 15

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- A3. The Board's vision is for MD&A to include balanced, integrated, and concise information to present a streamlined holistic story about the reporting entity's financial position, financial condition, and performance results.
- A4. The Board based its vision on a pilot conducted to field test MD&A objectives and a draft MD&A vision framework developed by the Board during the research phase of the project.<sup>16</sup>
- A5. The Board proposes standards that support its vision by adopting standards-based language from SFFAC 3 and lessons learned from the pilot.
- A6. This proposed Statement does not eliminate or otherwise affect SFFAS 37.

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<sup>16</sup> Please see the April 2020 meeting information, TAB D, in the [MD&A project page](#) for more information about the MD&A objectives, draft MD&A vision framework, and pilot activity.

- A7. This proposed Statement will rescind and replace SFFAS 15 standards.

## PROPOSED MD&A STANDARDS

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- A8. The Board believes the proposed standards will guide management to provide a balanced, integrated, and concise MD&A to help a user understand a reporting entity's financial position, financial condition, and performance achievements and challenges.
- A9. The Board wants the MD&A to present a streamlined holistic story about significant events and information that is pertinent to the reporting entity's financial position, financial condition, and performance achievements and challenges as simply and interconnected as possible.

## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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- A10. The information about mission and organizational should be minimal but enough to explain performance accomplishments and challenges.
- A11. The Board wants to encourage agencies of different sizes to scale<sup>17</sup> this information accordingly.
- A12. Due to the nature of funding for the federal government, the Board wants reporting entities to include significant changes in the reporting entity's assets, liabilities, net position, and in budget and financing to accurately present a federal reporting entity's financial position.
- A13. The Board wants reporting entities to discuss and analyze performance accomplishments and challenges in terms of cost and results to explain to users how available resources<sup>18</sup> supported performance results. The Board does not want GPRA-MA reporting statistics to be the focus of or repeated in the MD&A.
- A14. The Board believes the statement of net cost provides important information about the relationship between cost and performance accomplishments and challenges. However, the Board recognizes that other events may also have contributed to significant changes in the statement of net cost. Therefore, the Board believes it is important for a reporting entity to discuss and analyze all causes that contributed to significant change in the statement of net cost.
- A15. The Board wants the MD&A to educate users about the opportunities and risks that could significantly affect budgetary and financial resources in the future, and as a result key performance accomplishments and challenges. Because opportunities and risks are

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<sup>17</sup> For example, a large CFO reporting entity with multiple agencies may want to provide a summary paragraph for each agency and how they interact 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.

<sup>18</sup> The following concept informed the Board on developing the proposed performance accomplishments and challenges standard: SFFAC 1, paragraph 14.

forward looking, the Board believes the information should provide a general overview of impacts to financial statement elements and not predictive estimates.

- A16. The Board believes that the MD&A should share information about the reporting entity's plans to pursue key opportunities and mitigate significant risks that will support performance results.
- A17. The Board wants MD&A to include information on the reporting entity's systems and controls, and compliance with federal laws and regulations that only contribute to producing reliable financial information.<sup>19</sup>
- A18. The Board believes that the MD&A should share information about the reporting entity's plans to address any system and control weaknesses or noncompliance that could hamper the production of reliable financial information.
- A19. The Board wants reporting entities that produce Sustainability Financial Statements to provide information about financial condition in their MD&A's and include any plans to address significant changes.<sup>20</sup>

## PRESENTING INFORMATION IN MD&A

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- A20. The Board understands that 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, the Board proposes standards that provide guidance on presenting information that is flexible in form, and clear, concise, and balanced in context to provide users with a variety of forms of communication for ease of understanding.

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<sup>19</sup> The following concept informed the Board on developing the proposed internal control standard: SFFAC 1, paragraph 17.

<sup>20</sup> The following concepts informed the Board on developing the proposed financial condition standards: SFFAC 1, paragraphs 134, 144, 145, 181; and SFFAC 8, *Federal Financial Reporting*, paragraph 49.

## 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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Track Changes from February 2022 Board Meeting

MANAGEMENT'S DISCUSSION  
AND ANALYSIS ~~AMENDED~~

RESCINDING ~~AND REPLACING~~ 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

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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: 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

### WHAT IS THE BOARD PROPOSING?

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The Board is proposing new standards that will support its vision for management to provide a discussion and analysis that is a streamlined holistic story<sup>1</sup> with balanced, integrated, and concise information. The proposed standards will allow flexibility in how reporting entities include information about the entity's financial position, financial condition, and performance results.<sup>2</sup> To accomplish this vision, the Board has incorporated standards-based language from SFFAC 3,<sup>3</sup> as well as lessons learned from the pilot, into the proposed standards.

The proposed standards will rescind and replace SFFAS 15<sup>4</sup>.

This proposal does not eliminate or otherwise affect SFFAS 37.<sup>5</sup>

~~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 information that is balanced, integrated, and concise.~~

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<sup>1</sup> A streamlined holistic story provides a discussion and analysis of significant events and information pertinent to the reporting entity's financial position and financial condition in a simple and interconnected manner.

<sup>2</sup> The Board may use the terms "performance results" and "performance accomplishments and challenges" interchangeably.

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

<sup>4</sup> Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*

<sup>5</sup> SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

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

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about its financial position and financial condition. This proposed statement will improve federal financial reporting by providing standards to guide management in developing a streamlined holistic story for users to understand the financial position, financial condition, and performance results of a reporting entity through balanced, integrated, and concise information. For example, the Board envisions the MD&A to discuss performance achievements and challenges in terms of resources received and used; a repetition of Government Performance and Results Act-Modernization Act (GPRA-MA) statistical reporting information is not required because it does not map cost to performance information. Proposed standards will guide management on what to include for a user to understand the reporting entity's financial position as of the report date. Proposed standards will identify which reporting entities should report on financial condition. The proposed standards will also provide a variety of ways to present data that will help users to understand the information presented in MD&A, such as graphs and charts, financial and non-financial information, and qualitative and non-qualitative information.

The proposed standards are essential to meeting all four of the reporting objectives: budgetary integrity, operating performance, stewardship, and systems and control.

~~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 Board's vision is to improve guidance on how reporting entities can provide a streamlined holistic story that is balanced, integrated, and concise,~~

~~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 proposes to rescind ~~and replace~~ SFFAS 15 ~~and amend~~ with the proposed MD&A standards to provide ~~management~~ management with the flexibility to communicate information that is balanced, integrated, and concise ~~so that to help~~ users ~~can~~ understand the financial position, financial condition, and key results ~~unique to that reporting agency~~. Please refer to the proposed standards in paragraphs **5 - 8**.

**Do you agree or disagree that the proposed standards will provide management the flexibility to communicate financial position, financial condition, and key results ~~unique to that reporting agency~~ in a balanced, integrated, and concise manner? 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.**

- Q4. **Are there specific aspects of the proposed standards, not addressed in Q1-3, that you wish to provide comments on?**

## 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>6</sup>
4. This Statement provides standards for management to develop a balanced, integrated, and concise MD&A.

### RECISSION AND REPLACEMENT OF SFFAS 15

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5. This paragraph rescinds and replaces SFFAS 15, *Management's Discussions and Analysis, in its entirety. The standards proposed in this statement provide with the proposed amended* Management's Discussions and Analysis (MD&A) guidance standards in this Statement.<sup>7</sup>

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

<sup>7</sup> This Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.



## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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6. MD&A should include balanced, integrated, and concise information to present a streamlined holistic story<sup>8</sup> about the reporting entity's financial position, financial condition, mission, organization, and key performance results by including the following: about the reporting entity's financial position and financial condition- by discussing its mission, organization, and key financial and performance achievements and challenges<sup>9</sup> by and including the vital few matters about the following:
- a. What caused significant<sup>10</sup> changes in assets, liabilities, net position, and budgetary and financing resources from the prior reporting period and significant trends<sup>11</sup> over multiple reporting periods?
  - a. ~~What caused MD&A should summarize the reporting entity's mission, organizational structure, and key performance achievements and challenges.~~
  - b. ~~MD&A should concisely explain reasons for significant changes~~ significant changes in net costs, including the relationship of the changes, if any, to key -as it relates to key performance achievements and challenges, from the prior reporting period and any significant trends -over multiple years reporting period?-
  - 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 position, and budgetary/financing resources over the prior reporting period; and significant trends over prior reporting periods that provide insight on whether the entity's financial position has improved or deteriorated~~
  - 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 achievement of the reporting entity's mission.~~

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<sup>8</sup> A streamlined holistic story provides a discussion and analysis of significant events and information pertinent to the reporting entity's financial position and financial condition as simply and interconnected as possible.

<sup>9</sup> The Board may use the terms "performance results" or "performance accomplishments and challenges" interchangeably. Management should use judgement in identifying what performance achievements and challenges are **key** to the reporting entity's mission that users need to understand about in the MD&A. GPRA-MA reporting may be referenced, however, the MD&A should focus on how costs related to these key performance achievements and challenges that management wants to highlight in the MD&A.

<sup>10</sup> "Significant" for the purposes of MD&A, is information that is extremely important and relevant for a user to understand the reporting entity's financial statements and report.

<sup>11</sup> Management uses judgement to determine if any trends over multiple reporting periods have significantly contributed to improving or not improving the reporting entity's financial position and financial condition.

- c. ~~Because financial condition is also forward-looking, MD&A should summarize how~~What key opportunities<sup>12</sup> and risks<sup>13</sup> may could significantly effectaffect budgetary and financial resources; in the future, and as a result key performance accomplishments and challenges ~~in the future?~~;
- i.d. ~~What as well as~~ plans ~~to does~~ the reporting entity have to pursue key opportunities and mitigate significant risks to encourage performance accomplishments?;
- e. How do the reporting entity's systems and controls, and compliance with federal laws and regulations contribute to producing reliable financial information?
- f. What current and future plans does the reporting entity have to address any system and control weaknesses or noncompliance to provide reliable financial information?
- g. In relation to financial condition, what caused significant changes in Sustainability Financial Statements<sup>14</sup> from the prior reporting period and significant trends over multiple reporting periods; and what plans do reporting entities have to address these significant issues?
- e.

## PRESENTING INFORMATION IN MD&A

6.7. ~~MD&A should be a streamlined holistic story that provides balanced, integrated, and concise information for a user to easily understandd is RSI that provides a broad-based holistic perspective of the reporting entity's financial position, financial condition, and performance results. To achieve a streamlined holistic story that is balanced, integrated, and concise, MD&A may include content that is qualitative, and/or quantitative; financial and/or non-financial; visual aids, such as charts, tables, and/or graphs for when it is necessary to better enhance a user's understanding of the information; and/or MD&A may present references to other reports, websites, or other areas of the agency financial report to additional information as necessar<sup>15</sup>y, to achieve a streamlined holistic story.~~

7. ~~and therefore should present information as follows:~~

<sup>12</sup> "Opportunities" for the purposes of MD&A, is anything that may positively affect a reporting entity's ability to achieve its objectives.

<sup>13</sup> "Risks" for the purposes of MD&A, is the effect of uncertainty on a reporting entity's ability to achieve its objectives.

<sup>14</sup> Sustainability Financial Statements include the Statement of Social Insurance, the Statement of Changes in Social Insurance, and Statement of Long-Term Fiscal Projections.

<sup>15</sup> ~~References can be used when additional information is necessary, to~~ ~~References should help to~~ reduce the burden of ~~providing duplicating~~ information, ~~that is duplicative~~ or ~~when information from other reports~~ does not synchronize with the timing of the financial statements. ~~For example the due dates for referenced reports, such as GPRA-MA reporting~~ are different from the financial ~~statement reportingstatement reporting~~ period, making comparison of information very difficult.

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.~~

## 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 DEVELOPMENT OF PROPOSED MD&A STANDARDS - 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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~~A3. The Board's vision is for MD&A to include balanced, integrated, and concise information to present a streamlined holistic story about the reporting entity's financial position, financial condition, and performance results.~~

A4. The Board based its vision on a pilot conducted to field test MD&A objectives and a draft MD&A vision framework developed by the Board during the research phase of the project.<sup>16</sup>

A5. The Board proposes standards that support its vision by adopting standards-based language from SFFAC 3 and lessons learned from the pilot.

A6. This proposed Statement does not eliminate or otherwise affect SFFAS 37.

A7. This proposed Statement will rescind and replace SFFAS 15 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 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>17</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>18</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~~

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<sup>16</sup> Please see the April 2020 meeting information, TAB D, in the [MD&A project page](#) for more information about the MD&A objectives, draft MD&A vision framework, and pilot activity.

<sup>17</sup>-SFFAC 1, paragraph 13

<sup>18</sup>-SFFAC 1, paragraph 14

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>19</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.

4. The Board identified the following MD&A objectives for systems and control:<sup>20</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 refine, 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.

<sup>19</sup>-SFFAC 1, paragraphs 15-16

<sup>20</sup>-SFFAC 1, paragraph 17

- ~~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 preparers develop a streamlined sample MD&A; 2) determine if the sample MD&A provided users with a better understanding 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.~~

- ~~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

~~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 are found in SFFAS 15; and~~

~~placed the proposed amended standards in two themes: *Information Discussed and Analyzed in MD&A*, and *Presenting Information in MD&A*~~

~~A8. The Board believes the The proposed standards in *Information Discussed and Analyzed in MD&A* [paragraph 6 a-f] will provide guidance management to provide a balanced, integrated, and concise MD&A on what information to include for to help a user to understand a reporting entity's mission, organization, key performance results, financial position, and, financial condition, and performance achievements and challenges.~~

~~A12.~~

~~A9. The Board wants the MD&A to present a streamlined holistic story about significant events and information that is pertinent to the reporting entity's financial position, financial~~

condition, and performance achievements and challenges as simply and interconnected as possible.

## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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A10. The information about mission and organizational should be minimal but enough to explain ~~the performance-~~ accomplishments and challenges ~~results achieved.~~ 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.”

~~A13.~~ A11. The Board wants to encourage agencies of different sizes to scale<sup>21</sup> this information accordingly.

~~A14.~~ A1. ~~Due to the nature of funding for the federal government, 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.”~~

~~A15.~~ A12. ~~The Board want’s reporting entities to -recognized that users need information on a reporting entity’s financial position to include -significant changes in of the reporting entity’s assets, liabilities, net position, - and in and budget and financing. For commercial organizations, financial position<sup>22</sup> only includes, assets, liabilities and equit Due to the nature of funding for the federal government, the Board added “budgetary and financial resources” as information to include in financial position. to accurately present a federal reporting entity’s financial position.~~

~~A16.~~ A13. The Board wants reporting entities to discuss and analyze performance accomplishments and challenges in terms of cost and ~~what was achieved~~ results in relation to explain to users how available resources<sup>23</sup> supported performance results. The Board; it does not want GPRA-MA reporting statistics to be the focus of or repeated in the MD&A.

~~—~~ The Board believes the statement of net cost provides important information about the relationship between cost and performance accomplishments and challenges. However, the Board recognizes that other events may also have contributed to significant changes in the statement of net cost. Therefore, the Board believes it is important for a reporting entity to discuss and analyze all causes that contributed to significant change in the statement of net cost.

A14.

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<sup>21</sup> For example, a large CFO reporting entity with multiple agencies may want to provide a summary paragraph for each agency and how they interact ~~tion between~~ 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.

<sup>22</sup> ~~The following concepts informed the Board on developing the proposed financial condition standard: SFFAC 1, paragraphs 1, 136.3A; 137; 178; and SFFAC 8, Federal Financial Reporting, paragraph 42.d.~~

<sup>23</sup> The following concept informed the Board on developing the proposed performance accomplishments and challenges standard: SFFAC 1, paragraph 14.



- A15. The Board wants the MD&A to educate users about the opportunities and risks that could significantly affect budgetary and financial resources in the future, and as a result key performance accomplishments and challenges. Because opportunities and risks are forward looking, the Board believes the information should provide a general overview of impacts to financial statement elements and not predictive estimates.
- A16. The Board believes that the MD&A should share information about the reporting entity's plans to pursue key opportunities and mitigate significant risks that will support performance results.
- A17. The Board wants MD&A to include information on the reporting entity's systems and controls, and compliance with federal laws and regulations that only contribute to producing reliable financial information.<sup>24</sup>
- A18. The Board believes that the MD&A should share information about the reporting entity's plans to address any system and control weaknesses or noncompliance that could hamper the production of reliable financial information.
- A19. The Board wants reporting entities that produce Sustainability Financial Statements to provide information about financial condition in their MD&A's and include any plans to address significant changes.<sup>25</sup>

#### PRESENTING INFORMATION IN MD&A

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- A20. The Board understands that 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, the Board proposes standards that provide guidance on presenting information that is flexible in form, and clear, concise, and balanced in context to provide users with a variety of forms of communication for ease of understanding.

- ~~A17. For paragraph 6d: the Board recognizes that users also need information on the financial condition to understand the sustainability and achievement of a reporting entity's mission. Just for agencies required to deliver sustainability reports. Therefore, the Board decided to distinguish financial condition from the financial position discussion and analysis.~~

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<sup>24</sup> The following concept informed the Board on developing the proposed internal control standard: SFFAC 1, paragraph 17.

<sup>25</sup> The following concepts informed the Board on developing the proposed financial condition standards: SFFAC 1, paragraphs 134, 144, 145, 181; and SFFAC 8, *Federal Financial Reporting*, paragraph 49.

~~The following stewardship reporting objective concepts informed the Board about the difference between financial position and financial condition: The following concepts informed the Board on developing the proposed financial condition standards:~~

~~A18.—~~

- ~~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>26</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>27</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.~~

~~A19. 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 181: Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of~~

<sup>26</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>27</sup>—SFFAC 1, paragraph 143. 3C. ~~Whether government operations have contributed to the nation’s current and future well-being.~~

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

3. SFFAC 8, paragraph 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.

A20. For paragraph 6e: the Board recognizes that users need information on significant weaknesses in systems and controls, including noncompliance with federal laws and regulations, which could affect the entity's ability to produce reliable financial information, and the plans to address and correct them.

A21. 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

A22. 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.

A23. 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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**MEMBER COMMENT FORM  
TOPIC C – MD&A  
ATTACHMENT 4  
APRIL 2022**

**Member Instructions:**

For each question, please include your name and provide your comments/edits.

**Question #1 for the Board:**

**Do members agree with the title or have any comments or edits?**

**Member Name:**

**Comment:**

**Question #2 for the Board:**

**Which option do members prefer as to help change MD&A reporting behaviors?**

**Member Name:**

**Comment:**

**MEMBER COMMENT FORM  
TOPIC C – MD&A  
ATTACHMENT 4  
APRIL 2022**

**Question #3 for the Board:**

**Do members agree with the Executive Summary or have any comments or edits?**

**Member Name:**

**Comment:**

**Question #4 for the Board:**

**Do members agree with the Questions and Scope sections or have any comments or edits?**

**Member Name:**

**Comment:**



**MEMBER COMMENT FORM  
TOPIC C – MD&A  
ATTACHMENT 4  
APRIL 2022**

**Question #5 for the Board:**

**Do members agree with updates to the Paragraph 5 title and content or have any comments or edits?**

**Member Name:**

**Comment:**

**Question #6 for the Board:**

**Do members agree with the updates to Paragraph 6 or have any comments or edits?**

**Member Name:**

**Comment:**

**MEMBER COMMENT FORM  
TOPIC C – MD&A  
ATTACHMENT 4  
APRIL 2022**

**Question #7 for the Board:**

**Do members agree with updates to Paragraph 7 or have any comments or edits?**

**Member Name:**

**Comment:**

**Question #8 for the Board:**

**Do members agree with updates to the Basis for Conclusions or have any comments or edits?**

**Member Name:**

**Comment:**