

## Memorandum

### MD&A

June 01, 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 3.

### REQUEST FOR FEEDBACK BY June 10 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 June meeting.

Staff requests responses to the ensuing questions by **June 10, 2022**. For efficiency and effectiveness purposes, please provide specific edits according to the information requested in the Staff Analysis (Attachment 1). Given the significant progress towards a final proposal gained at the April 2022 meeting, staff would ask members to take into consideration those Board decisions previously made before suggesting edits that may not align with those Board decisions.

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

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). Staff is also available to meet individually with members to discuss any questions.

### 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

June 1, 2022

Attachment 1

### CONTEXT

Staff incorporated edits and comments into the draft MD&A exposure draft (ED) based on the Board discussions at the April 27, 2022 meeting. Staff presents the updated draft exposure draft for members' editorial review. For efficiency and effectiveness purposes, please provide specific edits and comments according to the information requested in this Staff Analysis. Staff requests that members focus their edits and comments on correcting any technical issues, as well as those providing clarity and understandability to the draft.

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

### A. EXECUTIVE SUMMARY:

Staff updated the *Executive Summary* to explain what the Board is proposing and how the proposal improves MD&A and federal financial reporting.

#### Question #1 for the Board:

Does the content in the *Executive Summary* clearly summarize the Board's intent for this proposal? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the *Executive Summary*. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.

## B. QUESTIONS FOR RESPONDENTS (QFRs)

Staff updated the *QFRs* to ensure that responders provide feedback on whether the Board's vision for reporting entities to produce a streamlined narrative that is balanced, integrated, and concise was clear. The questions should also elicit feedback on whether the proposal supports the Board's vision.

### Question #2 for the Board:

Do you believe the content/questions in the ***Questions for Respondents (QFRs)*** will provide members with the feedback needed to finalize this guidance? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the proposal's *QFRs*. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.

## C. RESCISSION AND REPLACEMENT OF SFFAS 15

Staff updated the *Recession and Replacement of SFFAS 15* to include information explaining that the *Omnibus Concepts Amendments 202X* proposal will rescind SFFAC 3 and this proposal adapted all relevant content from SFFAC 3. It also notes that this proposal does not affect SFFAS 37. Staff did a global search of the Handbook for other SFFASs that include MD&A requirements; other than SFFAS 37 and SFFAS 15, no other SFFASs were noted.<sup>1</sup>

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<sup>1</sup> OMB memorandums, such as A-123 and A-136, direct inclusion of any other information that requires MD&A information.

**Question #3 for the Board:**

Does the content in the ***Rescission and Replacement of SFFAS 15*** clearly state how this proposal will affect SFFAS 15, SFFAC 3, and SFFAS 37?  
**Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of this information. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.

**D. Presenting Information in MD&A**

Per members' consensus at the April 2022 Board meeting, staff updated and expanded the *Presenting Information in MD&A* guidance to explain how the Board expects reporting entities to produce a streamlined narrative that is balanced, integrated, and concise. The content also includes a lead-in to *Information Discussed and Analyzed in MD&A* that explains the Board's intention for how preparers should present information in MD&A.

**Question #4 for the Board:**

Does the content in ***Presenting Information in MD&A*** guidance clearly state the Board's intention for management to produce a streamlined narrative that is balanced, integrated, and concise? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of *Presenting Information in MD&A* guidance. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.

## E. INFORMATION DISCUSSED AND ANALYZED IN MD&A

Per members' consensus at the April 2022 Board meeting, staff made the following updates:

1. clarified the guidance for **performance** by requiring a discussion and analysis on what key performance results occurred in relation to the financial and budgetary resources used and needed;
2. clarified the guidance for **financial condition** by removing a specific reference to it, and by requiring a discussion and analysis about significant changes for social insurance programs, business-type operations, and significant stewardship investments; and
3. clarified the guidance for **systems, controls, and compliance** by requiring information on what reporting entity's rely on to produce reliable financial information; and what plans the reporting entity has to address any weaknesses or non-compliance issues. This requirement is now generic and should not interfere or add any burden in relation to what any OMB memorandums, such A-136 or A-123, require.

### Question #5 for the Board:

Does the content in the *Information Discussed and Analyzed in MD&A* guidance clearly state the Board's intention for what information management should discuss and analyze to understand a reporting entity's financial condition and position? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the *Information Discussed and Analyzed in MD&A* guidance. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.

- F. Staff has updated the ***Basis for Conclusions (BFC)*** to explain why the Board is proposing the requirements outlined in the guidance. The BFC also explains how the Board analyzed and used SFFAC 3 and SFFAS 15 in developing the MD&A objectives; and how feedback from the pilot assisted the Board in developing the proposal.

**Question #6 for the Board:**

Does the content in the ***Basis for Conclusions (BFC)*** clearly state how and why the Board developed this proposal? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the ***BFC***. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.

## **G. Preparation for Respondent Comments**

Staff has spent a significant amount of time preparing this exposure draft for public comment since the completion of the pilot in the spring of 2021. As a result, staff would encourage the members to move towards finalizing the exposure draft to seek meaningful feedback from the community on the Board's MD&A proposal.

### **Question #7 for the Board:**

Do members believe there are any other major revisions - **NOT covered in questions 1-6** - that are needed in preparation for public comment of the proposal? **Yes or No?**

**If Yes**, please provide your comments or specific edits that you believe improve the clarity or understandability of the proposal. Staff is requesting members note their comments and edits according to the page and line number of the draft proposal.





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

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THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

1  
2 The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB),  
3 and the Comptroller General of the United States established the Federal Accounting Standards  
4 Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for  
5 promulgating accounting standards for the United States government. These standards are  
6 recognized as generally accepted accounting principles (GAAP) for the federal government.  
7

8 Accounting standards are typically formulated initially as a proposal after considering the  
9 financial and budgetary information needs of citizens (including the news media, state and local  
10 legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives,  
11 federal program managers, and other users of federal financial information. FASAB publishes  
12 the proposed standards in an exposure draft for public comment. In some cases, FASAB  
13 publishes a discussion memorandum, invitation for comment, or preliminary views document on  
14 a specific topic before an exposure draft. A public hearing is sometimes held to receive oral  
15 comments in addition to written comments. The Board considers comments and decides  
16 whether to adopt the proposed standards with or without modification. After review by the three  
17 officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal  
18 Financial Accounting Standards. The Board follows a similar process for Statements of Federal  
19 Financial Accounting Concepts, which guide the Board in developing accounting standards and  
20 formulating the framework for federal accounting and reporting.  
21

22 Additional background information and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):  
23

- 24 • ["Memorandum of Understanding among the Government Accountability Office, the](#)  
25 [Department of the Treasury, and the Office of Management and Budget, on Federal](#)  
26 [Government Accounting Standards and a Federal Accounting Standards Advisory Board."](#)
  - 27 • ["Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts,](#)  
28 [Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters,](#)  
29 [and other items of interest are posted on FASAB's website at: www.fasab.gov.](#)
- 30

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32

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40

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1  
2  
3  
4 **ISSUE DATE**  
5

6 TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION  
7

8 The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your  
9 comments on the exposure draft of a proposed Statement of Federal Financial Accounting  
10 Standards, entitled *Management’s Discussion and Analysis Amended*. Specific questions for  
11 your consideration appear on **page 6**, but you are welcome to comment on any aspect of this  
12 proposal. If you do not agree with specific matters or proposals, your responses will be most  
13 helpful to the Board if you explain the reasons for your positions and any alternatives you  
14 propose.  
15

16 Responses are requested by **DUE DATE**.  
17

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

20 Mail delivery is delayed by screening procedures. Therefore, please provide your comments in  
21 electronic form by e-mail to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please  
22 contact us at (202) 512-7350. We will confirm receipt of your comments. If you do not receive  
23 confirmation, please contact our office at (202) 512-7350 to determine if your comments were  
24 received.

25 The Board's rules of procedure provide that it may hold one or more public hearings on any  
26 exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish  
27 notice of the date and location of any public hearing on this document in the Federal Register  
28 and in its newsletter.

29 Sincerely,  
30  
31  
32

33 George A. Scott  
34 Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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The Board is proposing new standards that adapt content from Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis* and Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, to support the Board's vision for management to provide a streamlined narrative that is balanced, integrated, and concise<sup>1</sup>. This proposal will allow flexibility in how reporting entities include information about the entity's mission, organization, key performance results<sup>2</sup>, financial position, and financial condition.

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

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This proposal will improve federal financial reporting by providing management with a flexible framework to discuss and analyze the four reporting objectives: budgetary integrity, operating performance, stewardship, and systems and controls within the context of their mission(s) and organizations, and performance results<sup>3</sup>. As a result, management will present information in a simple, easy to read manner for users to understand a reporting entity's financial position and condition.

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<sup>1</sup> See *Presenting Information in MD&A*, (page #) for a full discussion of the Board's intent for this vision.

<sup>2</sup> This proposal adapts relevant content from SFFAS 15, Statement of Federal Financial Accounting Concepts (SFFAC 3), *Management's Discussion and Analysis* and lessons learned from the pilot testing.

<sup>3</sup> See the Basis for Conclusions (page #) for a full discussion about the Board's analysis of the four reporting objectives, and information utilized from SFFAC 3 in developing this proposal.

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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 merged content from SFFAC 3 and SFFAS 15 to provide management with the flexibility to provide a streamlined narrative that is balanced, integrated, and concise. Please refer to the proposed standards in paragraphs 4-9.

**Do you agree or disagree that the proposed standards will provide management the flexibility to communicate financial position, financial condition, and key performance results through a streamlined narrative that is balanced, integrated, and concise? Please provide the rationale for your answer.**

Q2. The Board explains its intent for achieving a streamlined narrative that is balanced, integrated, and concise in *Presenting Information in MD&A*. Please refer to paragraph 8.

**Do these proposed standards adequately explain the Board’s intent? Please provide the rationale for your answer.**

Q3. The Board includes required information in *Information Discussed and Analyzed in MD&A* for users to understand an entity’s financial position and condition through significant changes in 1) financial statement balances, 2) key performance results, 3) social insurance programs, business-like operations, and stewardship investments. This requirement also addresses any issues or non-compliance related to the entity’s systems and controls. Please refer to paragraph 9.

**Do the proposed standards provide adequate guidance on the required information? Please provide the rationale for your answer.**

1 **Q4.** Do you believe there is any other guidance not addressed in Q1-3 that is missing  
2 from this proposal and would assist an entity with developing a streamlined  
3 narrative that is balanced, integrated, and concise? Are there any other aspects of  
4 this proposal that you wish to provide comments on? Please provide the rationale  
5 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>4</sup>

### RESCISSION AND REPLACEMENT OF SFFAS 15

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4. This paragraph proposes to rescind SFFAS 15, *Management's Discussions and Analysis*.
5. This Statement proposes to replace SFFAS 15 with the proposed Management's Discussion and Analysis (MD&A) standards in this Statement.
6. The *Omnibus Concepts Amendments 202X* proposes to rescind SFFAC 3 given that the relevant content from SFFAC 3 has been adapted in this proposal.<sup>5</sup>
7. This Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

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<sup>4</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>5</sup> See the Basis for Conclusions to learn how and why SFFAC 3 was adapted into this proposal. A SFFAS cannot rescind a SFFAC, only another SFFAC can rescind an existing SFFAC.



## PRESENTING INFORMATION IN MD&A

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8. MD&A should present a streamlined narrative that is balanced, integrated, and concise about the reporting entity's mission, organization, and key performance results<sup>6</sup> to assist users in assessing whether the reporting entity's financial position and condition has improved or deteriorated during the reporting period.
- a. To achieve a **streamlined narrative**, management should provide efficient information in MD&A. Efficient information is minimal in quantity and provides a simple analysis in plain language<sup>7</sup> of the detailed technical information found in the financial statements and note disclosures. Other tools that could help to streamline the MD&A narrative include charts, tables, graphs; and/or references to other reports, websites, or areas of the agency financial report. In addition, a streamlined narrative, should avoid boilerplate content and responses.
  - b. To achieve a **balanced** MD&A, management should include information that is both (1) positive and negative, (2) financial and non-financial, (3) qualitative and quantitative, and (4) performance achievement-based and challenge-based. A balanced MD&A should also explain (1) significant<sup>8</sup> changes from both the prior reporting period and significant trends<sup>9</sup> over multiple reporting periods; and (2) both short and long-term plans to support opportunities<sup>10</sup>, mitigate risks<sup>11</sup>, or correct any problems or issues.
  - c. To achieve an **integrated** MD&A, management should strive to unify and consolidate information by avoiding the duplication of information and by refraining from using distinct sections.
  - d. To achieve a **concise** MD&A, management should explain and analyze the vital few matters that significantly affected changes in the entity's financial report. Management should explain these vital few matters in a non-technical simplified manner to assist users understand complex information presented in the financial statements and note disclosures.

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<sup>6</sup> Key "Performance results" refers to both performance accomplishments and performance challenges. Management uses judgement in identifying what performance results are **key**.

<sup>7</sup> <https://www.plainlanguage.gov/>

<sup>8</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>9</sup> Management should use 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>10</sup> "Opportunities" for the purposes of MD&A, is anything that may positively affect a reporting entity's ability to achieve its objectives.

<sup>11</sup> "Risks" for the purposes of MD&A, is the effect of uncertainty on a reporting entity's ability to achieve its objectives.

## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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9. MD&A should discuss and analyze the following information to help users understand the financial position and condition for all reporting entities, unless stated otherwise:
- a. MD&A should explain causes of significant changes in assets, liabilities, net position, and budgetary and financing resources;
  - b. MD&A should explain key performance results in relation to the financial and budgetary resources used. MD&A should explain what significant challenges, if any, occurred while trying to achieve performance results and how budgetary or financial resources needs were affected. This analysis should explain why significant costs reported in the financial statements were incurred and how they were used to achieve performance results in relation to what the reporting entity expected to achieve<sup>12</sup>.
    - i. An analysis of performance results in MD&A is required for component reporting entities.
    - ii. An analysis of performance results in MD&A is not required in the Financial Report of the U.S. Government.
  - a. MD&A should explain what caused significant changes in social insurance programs, business-type operations, and stewardship investments; and
  - b. MD&A should explain what systems, internal controls, and/or compliance with federal laws and regulations the reporting entity relies on to produce reliable financial information; and what plans the reporting entity has to address any weaknesses or non-compliance issues.

## EFFECTIVE DATE

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

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<sup>12</sup> Government Performance and Results Act-Modernization Act (GPRA-MA) reporting may be referenced, but detailed GPRA-MA information should not be the focus of how management analyzes performance results in the MD&A.

## APPENDIX A: BASIS FOR CONCLUSIONS

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

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

### PROJECT HISTORY

- A1. On June 8, 1999, FASAB published SFFAC 3, an MD&A conceptual framework written with standards-based language. On August 12, 1999, FASAB published SFFAS 15 to require MD&A as part of the GPFFR. Research revealed that SFFAS 15 was merely an outline of SFFAC 3, whereas the details behind the standards reside as concepts in SFFAC 3. The Board expected entities to use both SFFAC 3 and SFFAS 15 to prepare their MD&As. However, given that the concept statements are *non-authoritative other accounting information* as noted in the GAAP hierarchy<sup>13</sup>, agencies relied primarily on SFFAS 15 to prepare MD&As.
- A2. The Board began researching issues surrounding MD&A in 2018 after the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements projects noted MD&A-related feedback from roundtables<sup>14</sup> and research.
- A3. Roundtable feedback informed the Board that financial statement users (users) found federal entity MD&A's to be dense, duplicative, and complex. Users wanted to understand the financial performance of reporting entities without sifting through detailed strategic performance information duplicated in the financial reports from the required performance reporting. Users also wanted to understand a reporting entity's financial position and condition in a concise and integrated MD&A.
- A4. The Board added the 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. The goals of the MD&A project were to streamline the MD&A,

<sup>13</sup> According to SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, concepts are non-authoritative.

<sup>14</sup> Both the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements projects received the same feedback while conducting their own roundtables in 2018.

1 reduce preparer burden, and provide users with easy to understand information about a  
2 reporting entity's financial position and condition.  
3

#### 4 DEVELOPMENT OF PROPOSED MD&A STANDARDS

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6 A5. The Board's initial step was to develop the MD&A objectives. The Board used the four  
7 reporting objectives in SFFAC 1, *Objectives of Federal Financial Reporting*: (1) budgetary  
8 integrity<sup>15</sup>, (2) operating performance<sup>16</sup>, (3) stewardship<sup>17</sup>, and (4) systems and controls<sup>18</sup>  
9 to build a good foundation to create the MD&A objectives. The SFFAC 1 reporting  
10 objectives were also the basis for the SFFAC 3 concepts. Therefore, the Board analyzed  
11 the SFFAC 1 reporting objectives along with the related SFFAC 3 concepts to formulate  
12 the MD&A objectives.  
13

14 A6. The Board decided that the SFFAC 3 concepts for each reporting objective could be  
15 adapted to develop the proposed standards as follows:  
16

- 17 1. **Budgetary integrity** - The Board believes that a user could best understand a  
18 reporting entity's financial position and condition by including information about  
19 significant changes in budgetary and financing resources during the reporting period  
20 and over multiple reporting periods.  
21
- 22 2. **Operating performance** - The Board believes that a user could best understand a  
23 reporting entity's financial position and condition by including information about  
24 significant costs and cost trends over multiple years that contributed to its  
25 performance. The Board believes that the detailed GPRA-MA reporting information is  
26 not relevant in the MD&A because there is a timing issue for when the information is  
27 reported; and because it focuses on statistical information and not financial  
28 information. Therefore, the Board believes that management should only reference  
29 GPRA-MA required reporting.  
30
- 31 3. **Stewardship** - The Board believes that a user could best understand a reporting  
32 entity's financial position and condition by including information about significant  
33 changes in (1) assets, liabilities, net position, and budgetary and financing resources  
34 from the prior reporting period and any significant trends and multiple reporting  
35 periods; and (2) social insurance programs, business-type operations; and  
36 stewardship investments.  
37

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<sup>15</sup> For budgetary integrity, the Board reviewed and analyzed paragraphs 11, 13, 89, 91, 115, 116 and 118 from SFFAC 1; and paragraphs 28 and 29 from SFFAC 3.

<sup>16</sup> For operating performance, the Board reviewed and analyzed paragraphs 14, 126, and 128 from SFFAC 1; and paragraphs 43, 44, 45, 47, and 49 from SFFAC 3.

<sup>17</sup> For stewardship, the Board reviewed and analyzed paragraphs 11, 15, 16, 99, 100, 102, 135-141, and 143-145 from SFFAC 1; and paragraphs 14, 26, 27, 31, and 32 from SFFAC 3.

<sup>18</sup> For systems and controls, the Board reviewed and analyzed paragraphs 11, 17, 103, 149 and 150 from SFFAC 1; and paragraphs 15 -17 and 41 from SFFAC 3.

4. **Systems and controls** - The Board believes that a user should understand how a reporting entity produced reliable financial information and what plans it has to address any weaknesses or non-compliance.

A7. The Board then developed a draft MD&A vision framework<sup>19</sup> based on the MD&A objectives. The framework was in response to members' request to develop a cohesive vision of the MD&A without the duplicative language found in some of the MD&A objectives.

A8. The Board decided to conduct a pilot<sup>20</sup> to test the MD&A objectives and draft vision framework. Staff conducted the pilot from January through March 2021, with 17 federal reporting entities and 16 user reviewers. Some of the feedback showed that the MD&A objectives & draft vision framework (1) helped preparers develop a streamlined sample MD&A; (2) provided users with a better understanding of the agency's financial position and condition; and (3) could be used by the Board finalize its vision and update the MD&A standards.

A9. The Board concluded that the final vision for the MD&A is a *streamlined narrative that is balanced, integrated, and concise*. The Board believes that this vision will **change preparers' behavior** on how to present information in MD&A. Therefore, the Board took particular care in explaining what each of these characteristics means to help preparers to produce a new and improved MD&A, because the Board believes that

1. a **streamlined narrative** should encourage preparers to provide information that will assist a user in understanding the financial position and condition of the reporting entity;

2. a **balanced MD&A** should encourage preparers to provide information that is both positive and negative, financial and non-financial, and quantitative and qualitative. A balanced MD&A should also encourage preparers to include visual tools, such as charts and graphs, along with a narrative to provide a variety of ways for a user to understand complicated financial information;

3. an **integrated MD&A** should encourage preparers to be flexible in how to present information without duplication; and

4. a **concise MD&A** should encourage preparers to include only the vital few matters that significantly impacted the financial position and condition.

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<sup>19</sup> Please see the April 2021 meeting information, [Topic D, in the MD&A project page](#) for more information about the draft MD&A vision framework.

<sup>20</sup> Please see the April 2021 meeting information, [Topic D, in the MD&A project page](#) for more information about the pilot activity.

## RESCISSION AND REPLACEMENT OF SFFAS 15

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A10. The Board agreed to rescind SFFAS 15, as this proposal would entirely replace SFFAS 15.

A11. The Board is proposing to rescind SFFAC 3 in the *Omnibus Concepts Amendments 202X* proposal. All relevant standards-based content from SFFAC 3 has been adapted into this proposal.

A12. This proposal does not affect other statements that require information in MD&A, such as, SFFAS 37. The Board believes including the SFFAS 37 MD&A requirements in this proposal would cause duplication of information already required in MD&A.

## 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 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

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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The Board is proposing new standards that adapt content from Statement of Federal Financial Accounting Concepts (SFFAC) 3, Management's Discussion and Analysis and Federal Financial Accounting Standards (SFFAS) 15, Management's Discussions and Analysis, to support that will support its the Board's vision for management to provide a streamlined narrative that is balanced, integrated, and concise<sup>1</sup>. ~~discussion and analysis that is a streamlined holistic story<sup>2</sup> with balanced, integrated, and concise information. This proposed proposal standards will allow flexibility in how reporting entities include information about the entity's mission, organization, key performance results<sup>3</sup>, financial position, and financial condition, and performance results<sup>4</sup>. To accomplish this vision, the Board has incorporated standards-based language from SFFAC 3<sup>5</sup> as well as lessons learned from the pilot, into the proposed standards.~~

~~The proposed standards will rescind and replace SFFAS 15<sup>6</sup>.~~

~~This proposal does not eliminate or otherwise affect SFFAS 37.<sup>7</sup>~~

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

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This ~~proposed~~ statemental will improve federal financial reporting by providing management with a flexible framework to discuss and analyze the four reporting objectives: budgetary integrity, operating performance, stewardship, and systems and controls within the context of their mission(s) and organizations, and performance results<sup>8</sup>. As a result, management will

---

<sup>1</sup> See *Presenting Information in MD&A*, (page #) for a full discussion of the Board's intent for this vision.

<sup>2</sup> A streamlined holistic story narrative 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>3</sup> This proposal adapts relevant content from SFFAS 15, Statement of Federal Financial Accounting Concepts (SFFAC 3), Management's Discussion and Analysis and lessons learned from the pilot testing.

<sup>4</sup> The Board may use the terms "performance results" includes and "performance accomplishments and challenges" interchangeably.

<sup>5</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion and Analysis*

<sup>6</sup> Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*

<sup>7</sup> SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

<sup>8</sup> See the Basis for Conclusions (page #) for a full discussion about the Board's analysis of the four reporting objectives, and information utilized from SFFAC 3 in developing this proposal.

present information in a simple, easy to read manner for users to understand a reporting entity's financial position and condition.

~~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.~~

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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 ~~merged content from SFFAC 3 and SFFAS 15~~ ~~proposes to rescind and replace SFFAS 15 with the proposed MD&A standards~~ to provide management with the flexibility to provide a streamlined narrative that 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 **5–84-8**.

**Do you agree or disagree that the proposed standards will provide management the flexibility to communicate financial position, financial condition, and key performance results through a streamlined narrative that in-ais balanced, integrated, and concise ~~ee manner~~?** Please provide the rationale for your answer.

Q2. The Board explains its intent for achieving a streamlined narrative that is balanced, integrated, and concise in *Presenting Information in MD&A*. Please refer to paragraph **7**.

**Do these proposed standards properlyadequately explain the Board’s intent? Please provide the rationale for your answer.**

~~Q2–~~ Q3. The Board includes required ~~is proposing what~~ information in *Information Discussed and Analyzed in MD&A* for users to understand an entity’s financial position and condition through significant changes in 1) financial statement balances, 2) ~~key performance results~~, 3) social insurance programs, business-like operations, and stewardship investments. This requirement ~~also addresses as well as, plans to address any issues or non-compliance related to the entity’s systems and controlsto include in~~ *Information Discussed and Analyzed in MD&A*. Please refer to paragraphs ~~paragraph~~ **86 a-e**.

1 Do ~~you agree or disagree with~~ the proposed standards provide adequate guidance  
2 to provide on the required information? Please provide the rationale for your  
3 answer.

4  
5 Q3. ~~The Board is proposing how to present information in *Presenting Information in MD&A*~~  
6 ~~Please refer to paragraphs 7 a – f.~~

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

9  
10  
11 ~~Are there specific aspects of the proposed standards, not addressed in Q1-3 that you~~  
12 ~~wish to provide comments on?~~

13 Q4. ~~Is~~ Do you believe there is any other guidance not addressed in Q1-3 that that is  
14 missing from this proposal to and would provide assist an entity with developing a  
15 streamlined narrative that is balanced, integrated, and concise? Are there; or any  
16 other aspects of this proposal not addressed in Q1-3 that you wish to provide  
17 comments on? Please provide the rationale for your answer.

18 Q4. ~~s this proposal clear about the Board's intent for preparers to provide a~~  
19 ~~streamlined narrative that is balanced, integrated, and concise MD&A?~~  
20 ~~Please provide the rationale for your answer.~~

21 Q5. \_\_\_\_\_



## PROPOSED STANDARDS

### SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. 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>9</sup>
- ~~4. This Statement provides standards for management to develop a balanced, integrated, and concise MD&A.~~

### RESCISSION AND REPLACEMENT OF SFFAS 15

- ~~4. This paragraph proposes to rescind s and replaces SFFAS 15, *Management's Discussions and Analysis*, with the proposed Management's Discussions and Analysis (MD&A) standards in this Statement.<sup>40</sup>~~
- ~~5. This Statement proposes to replace SFFAS 15 with the proposed Management's Discussion and Analysis (MD&A) standards in this Statement.~~
- ~~6. The *Concepts Omnibus Concepts Amendments 202X* proposes to will rescind SFFAC 3 because all given that the relevant content from SFFAC 3 has been adapted into this proposal and an SFFAS cannot rescind concepts.<sup>11</sup>~~
- ~~7. This Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.~~

<sup>9</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>40</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*.~~

<sup>11</sup> See the Basis for Conclusions to learn how and why SFFAC 3 was adapted into this proposal. A SFFAS cannot rescind a SFFAC, only another SFFAC can rescind an existing SFFAC.



## PRESENTING INFORMATION IN MD&A

8. MD&A should present a streamlined narrative that is balanced, integrated, and concise about the reporting entity's mission, organization, and key performance results<sup>12</sup> to assist users in assessing whether the reporting entity's financial position and condition has improved or deteriorated during the reporting period.

a. To achieve a **streamlined narrative**, management should provide efficient information in MD&A. Efficient information is minimal in quantity, and provides a simple analysis in plain language<sup>13</sup> of the detailed technical information found in the financial statements and note disclosures. Other tools that could help to ~~with~~ streamlining the MD&A narrative include charts, tables, graphs; and/or references to other reports, websites, or areas of the agency financial report. In addition, a streamlined narrative, should avoid ~~providing boilerplate content and responses.~~

b. To achieve a **balanced** MD&A, management should include information that is both (1) positive and negative, (2) financial and non-financial, (3) qualitative and quantitative, and (4) performance achievements-based and challenge-basedes. A balanced MD&A should also explain (1) significant<sup>14</sup> changes from both the prior reporting period and significant trends<sup>15</sup> over multiple reporting periods; and (2) both short and long-term plans to support opportunities<sup>16</sup>, mitigate risks<sup>17</sup>, or correct any problems or issues.

c. To achieve an **integrated** MD&A, management should strive to unify and consolidate information by ~~should avoiding the duplication of information and by should not utilize~~refraining from using distinct sections.

—  
To achieve a **concise** MD&A, management should explain and analyze the vital few matters that significantly affected changes in the entity's financial report. Management should explain these vital few matters in a non-technical simplified manner to assist users in understanding complex information presented in the financial statements and note disclosures.

<sup>12</sup> Key "Performance results" refers to both performance accomplishments and performance challenges. Management uses judgement in identifying what performance results are **key**.

<sup>13</sup> <https://www.plainlanguage.gov/>

<sup>14</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>15</sup> Management should use 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>16</sup> "Opportunities" for the purposes of MD&A, is anything that may positively affect a reporting entity's ability to achieve its objectives.

<sup>17</sup> "Risks" for the purposes of MD&A, is the effect of uncertainty on a reporting entity's ability to achieve its objectives.

d.

## INFORMATION DISCUSSED AND ANALYZED IN MD&A

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9. MD&A should discuss and analyze the following information to help users understand the financial position and condition for all reporting entities, unless stated otherwise:

~~5. MD&A should include balanced, integrated, and concise information to present a streamlined holistic story<sup>18</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>19</sup> and including the vital few matters about the following:~~

a. MD&A should explain ~~What caused~~ <sup>significant</sup><sup>20</sup> changes in assets, liabilities, net position, and budgetary and financing resources ~~from the prior reporting period and significant trends~~<sup>21</sup> over multiple reporting periods;<sup>2</sup>

b. MD&A should explain ~~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?~~ key performance results in relation to the financial and budgetary resources used. MD&A should explain what significant challenges, if any, occurred while trying to achieve performance results, and how ~~that affected~~ budgetary or financial resources needed ~~were affected~~. This analysis should explain why significant costs reported in the financial statements were incurred and how they were used to achieve performance results in relation to what the reporting entity expected to achieve<sup>22</sup>.

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<sup>18</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>19</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>20</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>21</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>22</sup> Government Performance and Results Act-Modernization Act (GPRA-MA) reporting may be referenced, but detailed GPRA-MA information should not be the focus of how management analyzes performance results in the MD&A.

- i. An analysis of performance results in MD&A is required for component reporting entities.
- b.ii. An analysis of performance results in MD&A is not required in the Financial Report of the U.S. Government.
- e. ~~What opportunities<sup>23</sup> and risks<sup>24</sup> could significantly affect budgetary and financial resources in the future, and as a result key performance accomplishments and challenges?~~
- a. MD&A should explain what caused significant changes in social insurance programs, business-type operations, and stewardship investments; and
- d. ~~MD&A should explain What plans does the reporting entity have to pursue key opportunities and mitigate significant risks to encourage performance accomplishments?~~
- b. ~~How do the reporting entity's what systems, internal and controls, and/or compliance with federal laws and regulations the reporting entity relies on to contribute to producing reliable financial information; and what plans the reporting entity has to address any weaknesses or non-compliance issues.~~
- e. ~~?~~
- 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>25</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

6. ~~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>26</sup>~~

<sup>23</sup> "Opportunities" for the purposes of MD&A, is anything that may positively affect a reporting entity's ability to achieve its objectives.

<sup>24</sup> "Risks" for the purposes of MD&A, is the effect of uncertainty on a reporting entity's ability to achieve its objectives.

<sup>25</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>26</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.

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### EFFECTIVE DATE

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~~7.10.~~ The requirements of this Statement are effective for reporting periods beginning after September 30, 2023. Early implementation is permitted.

## APPENDIX A: BASIS FOR CONCLUSIONS

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

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

### PROJECT HISTORY

~~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.~~

A1. On June 8, 1999, FASAB published SFFAC 3, an MD&A conceptual framework written with standards-based language. On August 12, 1999, FASAB published SFFAS 15 to require MD&A as part of the GPFFR. Research revealed that SFFAS 15 was merely an outline of SFFAC 3, whereas the details behind the standards reside as concepts in SFFAC 3–3. The Board expected entities to use both SFFAC 3 and SFFAS 15 to prepare their MD&As. However, given that the concept statements are *non-authoritative other accounting information* as noted in the GAAP hierarchy<sup>27</sup>, agencies relied primarily on SFFAS 15 to prepare MD&As.

<sup>27</sup> According to SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, concepts are non-authoritative.

1 A2. The Board began researching issues surrounding MD&A in 2018 after the Risk Reporting  
2 and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements  
3 projects noted MD&A-related feedback from roundtables<sup>28</sup> and research.

4 A3. Roundtable feedback informed the Board that financial statement users (users) found  
5 federal entity MD&A's to be dense, duplicative, and complex. Users wanted to  
6 understand the financial performance of reporting entities without sifting through detailed  
7 strategic performance information duplicated in the financial reports from the required  
8 performance reporting. Users also wanted to understand a reporting entity's financial  
9 position and condition in a concise and integrated MD&A.

10 A4. The Board added the MD&A project to its agenda in June 2019 to merge work completed  
11 by the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments  
12 Improvements projects. The goals of the MD&A project were to streamline the MD&A,  
13 reduce preparer burden, and provide users with easy to understand information about a  
14 reporting entity's financial position and condition.

## 17 DEVELOPMENT OF PROPOSED MD&A STANDARDS

### 18 ~~—RESCISSION OF SFFAS 15~~

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19 8-

20 A5. The Board's initial step was to developing the MD&A objectives. The Board used the four  
21 reporting objectives in SFFAC 1, *Objectives of Federal Financial Reporting*: (1) budgetary  
22 integrity<sup>29</sup>, (2) operating performance<sup>30</sup>, (3) stewardship<sup>31</sup>, and (4) systems and controls<sup>32</sup>  
23 to build a good foundation to create the MD&A objectives. The SFFAC 1 reporting  
24 objectives were also the basis for the SFFAC 3 concepts. Therefore, the Board analyzed  
25 the SFFAC 1 reporting objectives along with the related SFFAC 3 concepts to formulate  
26 the MD&A objectives.

27  
28 A6. The Board decided that the SFFAC 3 content concepts for each reporting objective could  
29 be adapted to develop the proposed standards as follows:

- 30  
31 1. **Budgetary integrity** - The Board believes that a user could best understand a  
32 reporting entity's financial position and condition by including information about

---

<sup>28</sup> Both the Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments Improvements projects received the same feedback while conducting their own roundtables in 2018.

<sup>29</sup> For budgetary integrity, the Board reviewed and analyzed paragraphs 11, 13, 89, 91, 115, 116 and 118 from SFFAC 1; and paragraphs 28 and 29 from SFFAC 3.

<sup>30</sup> For operating performance, the Board reviewed and analyzed paragraphs 14, 126, and 128 from SFFAC 1; and paragraphs 43, 44, 45, 47, and 49 from SFFAC 3.

<sup>31</sup> For stewardship, the Board reviewed and analyzed paragraphs 11, 15, 16, 99, 100, 102, 135-141, and 143-145 from SFFAC 1; and paragraphs 14, 26, 27, 31, and 32 from SFFAC 3.

<sup>32</sup> For systems and controls, the Board reviewed and analyzed paragraphs 11, 17, 103, 149 and 150 from SFFAC 1; and paragraphs 15 -17 and 41 from SFFAC 3.



significant changes in budgetary and financing resources during the reporting period and over multiple reporting periods.

2. **Operating performance** - The Board believes that a user could best understand a reporting entity's financial position and condition by including information about significant costs and cost trends over multiple years that contributed to its performance. The Board believes that the detailed GPRA-MA reporting information is not relevant in the MD&A because there is a timing issue for when the information is reported; and because it focuses on statistical information and not financial information. Therefore, the Board believes that management should only reference GPRA-MA required reporting.

3. **Stewardship** - The Board believes that a user could best understand a reporting entity's financial position and condition by including information about significant changes in (1) assets, liabilities, net position, and budgetary and financing resources from the prior reporting period and any significant trends and multiple reporting periods; and (2) social insurance programs, business-type operations; and stewardship investments.

4. **Systems and controls** - The Board believes that a user should understand how a reporting entity produced reliable financial information and what plans it has to address any weaknesses or non-compliance.

A7. The Board then developed a draft MD&A vision framework<sup>33</sup> based on the MD&A objectives. The framework was in response to members' request to develop a cohesive vision of the MD&A without the duplicative language found in some of the MD&A objectives.

A8. The Board decided to conduct a pilot<sup>34</sup> to test the MD&A objectives and draft vision framework. Staff conducted the pilot from January through March 2021, with 17 federal reporting entities and 16 user reviewers. Some of the feedback showed that the MD&A objectives & draft vision framework (1) helped preparers develop a streamlined sample MD&A; (2) provided users with a better understanding of the agency's financial position and condition; and (3) could be used by the Board finalize its vision and update the MD&A standards.

A9. The Board concluded that the final vision for the MD&A is a *streamlined narrative that is balanced, integrated, and concise*. The Board believes that this vision will **change preparers' behavior** on how to present information in MD&A. Therefore, the Board took

<sup>33</sup> Please see the April 2021 meeting information, Topic D, in the MD&A project page for more information about the draft MD&A vision framework.

<sup>34</sup> Please see the April 2021 meeting information, Topic D, in the MD&A project page for more information about the pilot activity.

particular care in explaining what each of these characteristics means to help preparers to produce a new and improved MD&A, because the Board believes that

1. a **streamlined narrative** should encourage preparers to provide information that will assist a user in understanding the financial position and condition of the reporting entity;
2. a **balanced MD&A** should encourage preparers to provide information that is both positive and negative, financial and non-financial, and quantitative and qualitative. A balanced MD&A should also encourage preparers to include visual tools, such as charts and graphs, along with a narrative to provide a variety of ways for a user to understand complicated financial information;
3. an **integrated MD&A** should encourage preparers to be flexible in how to present information without duplication; and
4. a **concise MD&A** should encourage preparers to include only the vital few matters that significantly impacted the financial position and condition.

## RESCISSION AND REPLACEMENT OF SFFAS 15

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A10. The Board agreed to rescind and replace SFFAS 15, as this proposal would entirely replace SFFAS 15.

A11. The Board is proposing to rescind SFFAC 3 in the *Omnibus Concepts Amendments 202X* proposal. All relevant standards-based content from SFFAC 3 has been adapted into this proposal.

A12. This proposal does not affect other statements that require information in MD&A, such as, SFFAS 37. The Board believes including the SFFAS 37 MD&A requirements in this proposal would cause duplication of information already required in MD&A.

A3.

A4. 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.

A5. 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>35</sup>

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<sup>35</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.

~~A6.—The Board proposes standards that support its vision by adopting standards-based language from SFFAC 3 and lessons learned from the pilot.~~

~~A7.—This proposed Statement does not eliminate or otherwise affect SFFAS 37.~~

~~A8.—This proposed Statement will rescind and replace SFFAS 15 standards.~~

## ~~PROPOSED MD&A STANDARDS~~

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~~A9.—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.~~

~~A10.—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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~~A11.—The information about mission and organizational should be minimal but enough to explain performance accomplishments and challenges.~~

~~A12.—The Board wants to encourage agencies of different sizes to scale<sup>36</sup> this information accordingly.~~

~~A13.—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.~~

~~A14.—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>37</sup> supported performance results. The Board does not want GPRA-MA reporting statistics to be the focus or repeated in the MD&A.~~

~~A15.—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~~

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<sup>36</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>37</sup>The following concept informed the Board on developing the proposed performance accomplishments and challenges standard: SFFAC 1, paragraph 14.

entity to discuss and analyze all causes that contributed to significant change in the statement of net cost.

A16. 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.

A17. 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.

A18. 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>38</sup>

A19. 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.

A20. 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>39</sup>

## PRESENTING INFORMATION IN MD&A

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A21. 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>38</sup> The following concept informed the Board on developing the proposed internal control standard: SFFAC 1, paragraph 17.

<sup>39</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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**MEMBER COMMENT FORM**  
**TOPIC C – MD&A**  
**ATTACHMENT 4**  
**June 2022**

**Member Instructions:**

For efficiency and effectiveness purposes, staff requests that members focus their edits and comments on correcting any technical issues as well as those providing clarity and understandability to the draft.

Given the significant progress towards a final proposal gained at the April 2022 meeting, staff would ask members to take into consideration those Board decisions previously made before suggesting edits that may not align with those Board decisions.

Staff is requesting members note edits and comments according to the page and line number of the draft proposal.

**Question #1 for the Board:**

Does the content in the ***Executive Summary*** clearly summarize the Board's intent for this proposal? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the ***Executive Summary***.

Question 1 – Executive Summary			
Member Initials	Page #	Line #	Comment / Edit

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

**Question #2 for the Board:**

Do you believe the content/questions in ***Questions for Respondents (QFRs)*** will provide members with the feedback needed to finalize this guidance? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the proposal's ***QFRs***.

Question 2 – Questions for Respondents (QFRs)			
Member Initials	Page #	Line #	Comment / Edit



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

**Question #3 for the Board:**

Does the content in the ***Rescission and Replacement of SFFAS 15*** clearly state how this proposal will affect SFFAS 15, SFFAC 3, and SFFAS 37?

**Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of this information.

**Question 3 – Rescission and Replacement of SFFAS 15**

<b>Member Initials</b>	<b>Page #</b>	<b>Line #</b>	<b>Comment / Edit</b>

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

**Question #4 for the Board:**

Does the content in ***Presenting Information in MD&A*** guidance clearly state the Board's intention for management to produce a streamlined narrative that is balanced, integrated, and concise? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of *Presenting Information in MD&A* guidance.

Question 4 – Presenting Information in MD&A			
Member Initials	Page #	Line #	Comment / Edit

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

**Question #5 for the Board:**

Does the content in the *Information Discussed and Analyzed in MD&A* guidance clearly state the Board's intention for what information management should discuss and analyze to understand a reporting entity's financial condition and position? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the *Information Discussed and Analyzed in MD&A* guidance.

Question 5 – Information Discussed and Analyzed in MD&A			
Member Initials	Page #	Line #	Comment / Edit

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

**Question #6 for the Board:**

Does the content in the ***Basis for Conclusions (BFC)*** clearly state how and why the Board developed this proposal? **Yes or No?**

**If No**, please provide your comments or specific edits that you believe improve the clarity or understandability of the ***BFC***.

Question 6 – Basis for Conclusions (BFC)			
Member Initials	Page #	Line #	Comment / Edit

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

**Question #7 for the Board:**

Do members believe there are any other major revisions - **NOT covered in questions 1-6** - that are needed in preparation for public comment of the proposal? **Yes or No?**

**If Yes**, please provide your comments or specific edits that you believe improve the clarity or understandability of the proposal.

Question 7 – Any Other Major Revisions?			
Member Initials	Page #	Line #	Comment / Edit