

Memorandum

MD&A

February 3, 2023

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

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

INTRODUCTION

Staff presents the draft Management's Discussions and Analysis (MD&A) exposure draft.

REQUEST FOR FEEDBACK BY February 13, 2023

Staff requests responses to the ensuing questions by **February 13, 2023**. 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 with a cc to Monica Valentine at valentinem@fasab.gov. Staff is also available to meet individually with members to discuss any questions.

NEXT STEPS

Pre-ballot the MD&A exposure draft in preparation for receiving comments to assist the Board in finalizing the MD&A standards.

ATTACHMENTS

1. Staff Analysis
2. Draft MD&A Exposure Draft – clean version
3. Track Changes from December 2022 to February 2023
4. Member Comment Form

Staff Analysis

TOPIC D - MD&A

February 3, 2022

Attachment 1

CONTEXT

During the August, October, and December 2022 Board meetings, members reviewed, edited, and agreed on the intent for the proposed standards and related basis for conclusions.

At the December 2022 meeting the Board

- worked on the *Purpose of MD&A* paragraph for the first time;
- continued to review, edit, and finalize the intent for the proposed standards and related basis for conclusions, making final minor technical edits to the “balanced,” “concise,” and “understandable” standards;
- finalized the intent for the “performance” standard by explaining in the proposed basis for conclusions the importance of 1) linking performance to cost and 2) including whether key performance achievements resulted in cost savings for the agency;
- decided NOT to include stewardship investments in the proposed MD&A standards; and
- agreed to review a draft MD&A Exposure Draft at the February 2023 meeting.

Staff drafted the MD&A Exposure Draft (**Attachment 2**) with the content agreed on by members from August – December 2022 Board meetings. Members can see the track changes from the December 2022 meeting to the content moved into the draft MD&A Exposure Draft in **Attachment 3**.

The clean version of the draft MD&A Exposure Draft includes comment boxes with the Board’s meeting date when members agreed upon the intent, as well as the following seven questions for members to consider. Answers to the seven questions will help staff prepare a pre-ballot for members to review at the April 2023 meeting.

The questions are as follows:

I. Executive Summary

Staff updated the content in the Executive Summary based on discussions at the August, October, and December 2022 Board meetings, to answer the following questions:

- What is the Board proposing?
- How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

Please review the Executive Summary on page 4 to determine if the content answers both questions.

Question #1 for the Board:

Does the content in the Executive Summary answer both questions?

If not, what significant changes do you recommend?

II. Questions for Respondents

Staff updated the Questions for Respondents based on discussions at the August, October, and December 2022 Board meetings. This included a new question, Q5, concerning the Board's decision NOT to require stewardship investment reporting in MD&A.

Please review the Questions for Respondents on pages 6 - 7 to determine if the proposed questions will provide members with the necessary feedback to finalize the MD&A Statement.

Question #2 for the Board:

Will the proposed Questions for Respondents provide members with the necessary feedback to finalize this statement?"

If not, what significant changes do you recommend?

III. Purpose of MD&A

At the December 2022 meeting, the Board began working on the *Purpose of MD&A* paragraph. Please review paragraphs #6 and #7 to determine if the purpose of MD&A is clearly stated.

Question #3 for the Board:

Members should confirm that the content in the Purpose of MD&A paragraph states the Board's intent for this proposed Statement.

If not, what significant changes do you recommend?

IV. MD&A Proposed Standards

A. Concise

"Concise" is included in the *Presenting Information in MD&A* proposed standards.

Members spent a significant amount of time during the August, October, and December 2022 Board meetings to determine the appropriate content to describe a "concise" MD&A.

During the December 2022 meeting, the Board agreed on the content to explain the three characteristics that are important for presenting a "concise" MD&A: 1) reporting only the vital few matters, 2) including references to detailed information with a summarization in MD&A; and 3) reducing boilerplate content.

Please review paragraph #9 to determine if the content meets the Board's intent for how management should present a "concise" MD&A.

Question #4 for the Board:

Members should confirm that the content in this proposed standard meets the Board's intent for presenting a "concise" MD&A.

If not, what significant changes do you recommend?

B. Financial Position and Condition

Financial position and condition is included in the *Information Discussed and Analyzed in MD&A* proposed standards.

Members spent a significant amount of time during the August, October, and December 2022 Board meetings to determine what should be included in MD&A to explain whether financial position and condition improved or deteriorated.

During the December 2022 Board meeting, members agreed that stewardship investments would not be required and instead to include a basis for conclusions that would explain why.

Please review paragraph #12.b. to determine if the content meets the Board's intent for the proposed standard for financial position and condition.

Question #5 for the Board:

Members should confirm that the content in this proposed standard meets the Board's intent for reporting whether the reporting entity's financial position and condition has improved or deteriorated.

If not, what significant changes do you recommend?

V. Basis For Conclusions

A. Concise

Staff updated the basis for conclusions in reference to the updates made for the "concise" proposed standard.

Please review paragraph #A15 to determine if the basis for conclusions explains the Board's rationale for the proposed standards on how to achieve a "concise" MD&A

Question #6 for the Board:

Do members agree that this basis for conclusion explains the Board's rationale for the proposed standard on how to achieve a "concise" MD&A?

If not, what significant changes do you recommend?

B. Stewardship Investments

At the December 2022 Board meeting, members decided not to require the reporting of stewardship investments in MD&A. Therefore, staff removed it from the proposed standards and updated the basis for conclusions to explain why the Board decided NOT to include stewardship investments in the proposed MD&A standards.

Please review paragraph #A24 to determine if the basis for conclusions explains the Board's rationale for NOT requiring the reporting of stewardship investments in MD&A.

Question #7 for the Board:

Do members agree that this basis for conclusion adequately explains the Board's rationale for NOT requiring the reporting of stewardship investments in MD&A?

If not, what significant changes do you recommend?

1 **TOPIC D - MD&A**
2 **February 3, 2023**
3 **Attachment 2**
4
5



7 **CLEAN VERSION**

8
9 **MANAGEMENT'S DISCUSSION**
10 **AND ANALYSIS**

11 **RESCINDING AND REPLACING SFFAS 15, MANAGEMENT'S DISCUSSIONS AND ANALYSIS**

12
13
14
15 **Statement of Federal Financial Accounting Standards**

16
17 **Exposure Draft**
18
19

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

21
22 Month day, year
23

24 Working Draft – Comments Are Not Requested on This Draft
25
26
27
28

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

Additional background information and other items of interest are available at www.fasab.gov:

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

Copyright Information

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Contact Us

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, D.C. 20548
Telephone (202) 512-7350
Fax (202) 512-7366
www.fasab.gov



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: Rescinding and Replacing SFFAS 15, Management’s Discussions and Analysis*. Specific questions for your consideration appear on page 6, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by DUE DATE.

All comments received by 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. 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

Commented [GR1]: Staff updated based on discussion from the Aug, Oct & Dec 2022 Board meetings.

Q1: Are the questions in the executive summary answered? If not, what **significant changes** do you recommend?

WHAT IS THE BOARD PROPOSING?

The Board is proposing to update the guidance for Management's Discussion and Analysis (MD&A). This proposal would provide a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity's financial position, financial condition, operating performance, opportunities, risks, and systems, internal controls, and compliance.

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

The Board first published guidance for management to prepare an MD&A in 1999, in the Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion, and Analysis*, and SFFAS 15, *Management's Discussions and Analysis*. The Board expected preparers to use the standards-like content prevalent in the non-authoritative concepts in SFFAC 3, as well as standards outlined in SFFAS 15 to prepare an MD&A. Consequently, reporting entities only used the standards in SFFAS 15, which resulted in dense and difficult to read MD&As.¹

To improve federal financial reporting and contribute to meeting the federal financial reporting objectives, the Board proposes this comprehensive set of standards based on the federal financial reporting objectives: 1) budgetary integrity, 2) operating performance, 3) stewardship, and 4) systems and controls—in one authoritative statement.

¹ See basis for conclusions, paragraphs A1-A4, for complete history.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

TABLE OF CONTENTS

Executive Summary..... 4

Questions for Respondents 6

Proposed Standards..... 8

 SCOPE 8

 RESCISSION AND REPLACEMENT OF SFFAS 15 8

 PURPOSE OF MD&A 9

 PRESENTING INFORMATION IN MD&A 9

 INFORMATION DISCUSSED AND ANALYZED IN MD&A..... 10

 EFFECTIVE DATE 11

Appendix A: Basis for Conclusions 12

 PROJECT HISTORY 12

 DEVELOPMENT OF PROPOSED MD&A STANDARDS 13

 PROPOSED MD&A STANDARDS 14

 PRESENTING INFORMATION IN MD&A 15

 INFORMATION DISCUSSED AND ANALYZED IN MD&A..... 17

 RESCISSION AND REPLACEMENT OF SFFAS 15 19

Appendix B: MD&A Objectives..... 21

Appendix C: DRAFT MD&A VISION FRAMEWORK..... 30

Appendix D: Abbreviations 31

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

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

All responses are requested by [insert date].

Q1. The Board adapted standard-like content from SFFAC 3 and standards from SFFAS 15 to provide a comprehensive set of standards to guide management in presenting an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s financial position, financial condition, operating performance, opportunities, risks, and systems, internal controls, and compliance.. Please refer paragraphs 8-13.

Do you agree or disagree that the proposed standards will provide adequate guidance for management to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s financial position, financial condition, operating performance, opportunities, risks, and systems, internal controls, and compliance? Please provide the rationale for your answer.

Q2. The Board believes this proposal will reduce preparer costs and burden over the long-term.

Do you believe the proposed standards will add to or reduce preparer cost and burden over the long-term? Please provide the rationale for your answer.

Commented [GR2]: Q2: Will the proposed Questions for Respondents provide members with the necessary feedback to finalize this statement?"

If not, what **significant changes** do you recommend?

- 1 Q3. The Board explains **how** management should present information in MD&A in
2 *Presenting Information in MD&A*. Please refer to paragraphs 8-11.
- 3 **Do the proposed standards provide adequate guidance on how to present**
4 **information in MD&A? Please provide the rationale for your answer.**
- 5
- 6 Q4. The Board includes **what** information to include in MD&A in *Information*
7 *Discussed and Analyzed in MD&A*. Please refer to paragraphs 12-13.
- 8 **Do the proposed standards provide adequate guidance on what**
9 **information to include in MD&A? Please provide the rationale for your**
10 **answer.**
- 11
- 12 Q5. The Board has determined that stewardship investments would NOT be required
13 reporting in MD&A. Please refer to paragraphs A#-A#
- 14 **Do you agree with not requiring the reporting of stewardship investments**
15 **in MD&A? Please provide the rationale for your answer.**
- 16
- 17 Q6. Are there any other aspects of this proposal that you wish to provide
18 comments on? Please provide the rationale for your answer.

Commented [GR3]: Staff note: 6 of 9 members agreed to include this question at December 2022 Board meeting.

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).²

Commented [GR4]: Staff note: Members agreed with this standard content at the June 2022 Board meeting.

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement 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.³

Commented [GR5]: Staff note: members agreed to moving some information to a footnote at June 2022 Board meeting.

² See SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information required supplemental information (RSI)* paragraph 73 for concepts about RSI.

³ The Omnibus Concepts Amendments 202X proposes to rescind SFFAC 3 given that the relevant content from SFFAC 3 has been adapted in this proposal and only another SFFAC can rescind an existing SFFAC. In addition, this Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

PURPOSE OF MD&A

6. The purpose of MD&A is to increase the understandability and usefulness of a reporting entity's general purpose federal financial report (GPFFR) by summarizing management's insights about its financial position, financial condition, operating performance, opportunities, risks, and systems, internal controls, and compliance. This proposed statement presents guidance in two categories: 1) *Presenting Information in MD&A*, and 2) *Information Discussed and Analyzed in MD&A* to accomplish a streamlined narrative.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. While, *Information Discussed and Analyzed in MD&A* identifies **what** information management should present in MD&A to explain how and why the organization's mission, opportunities and risks, and systems, internal controls, and compliance significantly contributed to the improvement or deterioration of the reporting entity's financial position, financial condition, and key performance results.

PRESENTING INFORMATION IN MD&A

8. To achieve a **balanced MD&A**, management should include information about events, conditions, trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, or operating performance.
9. To achieve a **concise MD&A**, management should summarize information by
- emphasizing the vital few matters that significantly affect the reporting entity's financial position, financial condition, or operating performance results;
 - providing the information necessary to explain the detailed information that management may reference from other areas of the GPFFR, other audited documents, or unaudited government documents;⁴ and
 - presenting information that is relevant to the reporting entity's financial report-including prior and future reporting periods to limit boilerplate language.

Commented [GR6]:

Q3: Members should confirm that the content in the Purpose of MD&A paragraph states the Board's intent for this proposed Statement. If not, what **significant changes** do you recommend?

Staff note: the Purpose paragraph was reviewed by members and updated for the first time at December 2022 Board meeting.

Commented [GR7]: Staff note: members agreed with this intent at the December 2022 Board meeting.

Commented [GR8]: Q4 - Members should confirm that the content in this proposed standard meets the Board's intent for presenting a "concise" MD&A. If not, what **significant changes** do you recommend?

⁴ Management should provide a note that explains when referenced information is unaudited.

10. To achieve an **integrated MD&A**, management should combine financial and non-financial information, and qualitative and quantitative information to present a comprehensive and unified discussion about the reporting entity's significant programs, projects, and/or key performance results.

Commented [GR9]: Staff note: members agreed with this intent at the October 2022 Board meeting.

11. To achieve an **understandable MD&A**, management should present content in plain language, organize information by related content, and as appropriate include charts, tables, graphs, or any combination thereof to enhance the understanding of the MD&A for those who may not have an extensive knowledge of U.S. Government operations or an extensive financial or accounting background.

Commented [GR10]: Staff note: members agreed with this intent at the December 2022 Board meeting.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

12. MD&A should discuss and analyze the following information:

- a. the **organization and mission** of the reporting entity;
- b. the improvement or deterioration of the reporting entity's **financial position and condition** during the reporting period due to significant changes and trends in
 - i. the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources;
 - ii. business-type activity, social insurance, and long-term fiscal projections; and
 - iii. other required supplementary information⁵;
- c. the reporting entity's **key performance⁶ results⁷** and the associated financial effects on budgetary or financing resources;

Commented [GR11]: Staff note: members agreed with this intent at the October 2022 Board meeting.

Commented [GR12]: Q5: Members should confirm that the content in this proposed standard meets the Board's intent for reporting whether the reporting entity's financial position and condition has improved or deteriorated.

If not, please provide only significant changes.

Commented [GR13]: Staff note: members agreed to this intent at December 2022 Board meeting.

⁵ Items reported as required supplementary information, such as heritage assets or federal oil and gas.

⁶ Key "Performance results" refers to both performance accomplishments and performance challenges. Management uses judgement in identifying what performance results are **key** to the reporting entity.

⁷ The Financial Report of the U.S. Government is not required to provide an analysis of consolidated governmentwide performance results, but may refer to the availability of performance information in agency financial reports.

d. the significant opportunities⁸ identified by management to enhance performance results, plans to leverage such opportunities, and the potential impact on financial and budgetary results of carrying out those plans⁹;

Commented [GR14]: Staff note: members agreed to this intent at the December Board 2022 meeting.

e. the significant risks¹⁰ identified by management that have a potentially negative effect on performance results, plans to mitigate such risks, and the potential impact on financial and budgetary results of carrying out those plans.

Commented [GR15]: Staff note: members agreed to this intent at the December Board 2022 meeting.

13. MD&A should provide management's summary assessment of

Commented [GR16]: Staff note: members agreed to this intent at the October 2022 Board meeting.

a. the effectiveness of the reporting entity's internal controls and financial management systems, and

b. the reporting entity's compliance with applicable laws¹¹, regulations, contracts, and grant agreements that are relevant to financial reporting.

c. Such reporting should address internal control weaknesses, systems deficiencies, and instances of non-compliance that have a significant effect on the reporting entity's financial and performance reporting; and plans the reporting entity has to address them.

EFFECTIVE DATE

14. The requirements of this Statement are effective for reporting periods beginning after September 30, 202X. Early implementation is permitted.

⁸ "Significant opportunities" for the purposes of MD&A, is anything that may have a significant positive affect on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant opportunities.

⁹ Plans are actions the reporting entity expects to execute during the current reporting period (short-term) and into the future (long-term).

¹⁰ "Significant risks" for the purposes of MD&A, is the effect of significant uncertainty on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant risks.

¹¹ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

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, *Management's Discussion and Analysis*. Although SFFAC 3 was a concept statement, it included standards-like content¹² to guide reporting entities on what to report in MD&A, along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are non-authoritative and therefore not required by GAAP. To require MD&A in the GPFFR, the Board needed authoritative guidance in an SFFAS.
- A2. **On August 12, 1999**, FASAB published SFFAS 15, *Management's Discussions and Analysis*, which was merely an outline of SFFAC 3 standard-based content, to require MD&A as part of the GPFFR. The expectation was that preparers would use both SFFAC 3 and SFFAS 15 to prepare the reporting entity's MD&A. However, given that the concept statements are *non-authoritative other accounting information* as noted in the GAAP hierarchy¹³, agencies relied primarily on SFFAS 15 to prepare MD&As.
- A3. **During 2017 and 2018**, staff conducted roundtables for the *Risk Reporting and Reporting Model-Phase I: MD&A and Stewardship Investments*

Commented [GR17]: Staff note: staff streamlined content and members agreed to this content at the June 2022 Board meeting.

¹² According to the Handbook *Forward*: "...concepts should be more general than statements and do not contain authoritative requirements for federal agencies. According to the Handbook *Preamble to Statements of Federal Financial Accounting Concepts*, concepts provide guiding principles for the Board to develop accounting standards. Many of the concepts in SFFAC 3 are standards-based because the language is not general and contains authoritative requirements for federal agencies, with wording such as: MD&A should address; MD&A should inform, and MD&A should concisely explain...

1 *Improvements* projects¹⁴. Roundtable feedback informed the Board that
2 financial statement users (users) found federal entity MD&As to be dense,
3 duplicative, and complex. Roundtable participants wanted to understand the
4 financial performance in the context of the reporting entity's financial position
5 and condition. The MD&A included dense statistical information repeated
6 from the GPRA-MA¹⁵ reporting that did not provide the financial information
7 about performance that users wanted.

- 8
- 9 A4. **In June 2019**, the Board added the MD&A project to its agenda to merge
10 work completed by the *Risk Reporting and Reporting Model-Phase I: MD&A*
11 *and Stewardship Investments Improvements* projects. The goals of the
12 MD&A project are to
- 13 a. incorporate standards-like content from SFFAC 3 and standards from
14 SFFAS 15 into one SFFAS for preparing the MD&A;
 - 15 b. reduce preparer burden by streamlining the MD&A;
 - 16 c. require information about a reporting entity's financial position and
17 condition for a financial focus instead of a statistical focus based on
18 GPRA-MA reporting; and
 - 19 d. update guidance to discuss and analyze risk plans and mitigation to
20 explain how the reporting entity will respond to opportunities and
21 uncertainties.
- 22
- 23
- 24
- 25
- 26
- 27

28 DEVELOPMENT OF PROPOSED MD&A STANDARDS

- 29
- 30 A5. The Board developed the proposed MD&A standards, by first identifying
31 objectives for what it believed management should report in MD&A.
- 32
- 33 A6. The Board identified the MD&A objectives by analyzing the four reporting
34 objectives (1) budgetary integrity, (2) operating performance, (3)
35 stewardship, and (4) systems and controls from SFFAC 1, *Objectives of*
36 *Federal Financial Reporting* and SFFAC 3 for each of the reporting
37 objectives to develop the MD&A objectives. See Appendix B: *MD&A*
38 *Objectives*.

¹⁴ 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.

¹⁵ Government Performance and Results Act of 1993 (GPRA) Modernization Act of 2010 (MA) (GPRA-MA)

- 1 A7. The Board then drafted an **MD&A vision framework**. See Appendix C:
2 *MD&A Draft Vision Framework*.
3
- 4 A8. The Board requested a pilot to test the MD&A objectives and MD&A draft
5 vision framework.
6
- 7 A9. Staff conducted the pilot from January through March 2021 with
8 a. Seventeen pilot agencies that created sample streamlined MD&As based
9 on the MD&A objectives and framework; and
10 b. Sixteen users who reviewed four sample MD&As to determine if the
11 sample MD&As were streamlined and easy to read and understand.
- 12 A10. In April 2021 Agency pilots and user reviewers recommended that a
13 streamlined MD&A could be accomplished by
14 a. providing a comprehensive connection between performance, non-
15 financial and financial information, and systems information while
16 avoiding a silo effect of putting information in separate sections;
17 b. focusing on key drivers (like COVID-19) that impacted performance
18 goals, significant changes in financial statement lines, and management's
19 decisions during the reporting period;
20 c. providing concise and concrete examples about the magnitude of risks
21 and current and planned actions to address them;
22 d. including high-level performance goals that support the current leadership
23 agenda instead of low-level metrics;
24 e. including well labeled trend graphs that integrate performance, financial,
25 and budgetary resource information, and written summaries; and
26 f. including more hyperlinks to detailed performance data and other
27 important documents.
- 28 A11. The Board determined the MD&A pilot was successful and that the
29 objectives and MD&A draft vision framework were sufficient for developing
30 the MD&A proposed standards.
31
32

33 PROPOSED MD&A STANDARDS

- 34 A12. The Board identified two categories for the proposed standards: 1)
35 Presenting Information in MD&A, and 2) Information Discussed and
36 Analyzed in MD&A to accomplish this streamlined narrative to accomplish
37 this purpose.

Commented [GR18]: Staff note: References to SFFAC 3 have been removed because the analysis to develop MD&A objectives is now included as Appendix B – *MD&A Objectives*.

A13. *Presenting Information in MD&A* explains how management should present a balanced, integrated, concise, and understandable MD&A. While, *Information Discussed and Analyzed* in MD&A identifies what information management should present in MD&A to explain how and why the organization's mission, opportunities and risks, and systems, internal controls, and compliance significantly contributed to the improvement or deterioration of the reporting entity's financial position, financial condition, and key performance results.

PRESENTING INFORMATION IN MD&A

A14. The Board believes that a **balanced** MD&A should explain both positive and negative effects to help users understand the important reasons for changes to the reporting entity's financial position, financial condition, and operating performance.

- a. A balanced MD&A should also include trend information over multiple prior reporting periods to help users understand any possible positive or negative future effects on amounts reported in the financial statements or supplementary information.
- b. For example, management may discuss and analyze performance results during the current reporting period, or over multiple reporting periods that had a significant (1) positive effect (e.g., accomplishments that resulted in reduced costs); or (2) negative effect (e.g., challenges that resulted in increased costs) on financial position and financial condition.

A15. The Board believes that a **concise** MD&A should only report the vital few matters for information required in proposed standards in *Information Discussed and Analyzed* in MD&A. For example, when discussing a significant change in net cost, the MD&A should be limited to the information necessary to understand the reasons for the significant change.

- a. The Board believes that a concise MD&A provides summarized information that is sufficient to meet the needs of its users.
 - i. For example, to summarize information, MD&A should provide a brief discussion about the reporting entity's operating performance with reference to the additional detailed information found within the GPFFR or in another government document.

Commented [GR19]: Q6 - Does this BfC explain the Board's rationale for the proposed standards on how to achieve a "concise" MD&A?

If not, what significant changes do you recommend?

1
2
3 ii. Management should acknowledge when it provides a reference to
4 detailed information that is unaudited.
5

6 b. The Board believes that a concise MD&A should discourage the use of
7 boilerplate language by presenting only timely and relevant information
8 about the agency financial report, including prior and future periods.
9

10 A16. The Board believes an **integrated** MD&A weaves together quantitative,
11 qualitative, financial, and non-financial information.
12

13 a. For example, a reporting entity could weave together this information by
14 each “major” program, as defined by the reporting entity’s Statement of
15 Net Cost.
16

17 b. For example, management may present the interrelationship of
18 budgetary, financial, and operating performance information for each
19 program supported by the reporting entity as a whole and across its
20 component entities.
21

22 A17. The Board believes that an MD&A should be **understandable** to any user
23 who may not have an extensive knowledge of U.S. Government operations
24 or an extensive financial or accounting background.

25 a. MD&A is understandable when written in plain language to explain
26 management’s insights about its financial position, financial condition,
27 operating performance, opportunities, risks, and systems, internal
28 controls, and compliance.
29

30 b. To achieve an understandable MD&A, management has the flexibility to
31 combine different methods of presenting information that appeal to a
32 variety of users. For example, an understandable MD&A may need to
33 include organizational tools, such as headers, sub-headers, bullet-points,
34 or crosswalks to financial reports; and visual aids, such as charts, tables,
35 or graphs to help explain quantitative information.
36
37
38
39
40

1 INFORMATION DISCUSSED AND ANALYZED IN MD&A

- 2 A18. The Board's intent is for MD&A to provide a brief description of the reporting
3 entity's **mission(s) and organizational structure**, including any
4 components, to help users understand the key results it expected to achieve
5 and the funding needed during the reporting period to achieve those results.
- 6 a. Management has the flexibility to determine how much information to
7 include about the mission(s) and organizational structure in relation to the
8 size and complexity of the reporting entity.
- 9 b. For example, a large reporting entity could provide a brief summary about
10 the reporting entity as a whole and a summary for each significant
11 component/agency entity, while a small reporting entity could provide just
12 a brief summary about the entire reporting entity.
- 13
- 14 A19. The Board's intent is for MD&A to explain what caused a significant
15 improvement or deterioration in the reporting entity's **financial position and**
16 **condition**.
- 17 a. The Board believes that significant changes in the composition or
18 balances of assets, liabilities, net position; costs, revenues, budgetary
19 resources, and financing sources; business-type activity, social
20 insurance, and long-term fiscal projections; and other required
21 supplementary information will provide the information necessary for a
22 user to understand the status of the reporting entity's financial position
23 and condition.
- 24
- 25 A20. The Board believes that MD&A should explain what **performance results**
26 are key to the reporting entity and the associated cost.
- 27 a. MD&A should focus on what it costs the agency to pursue or to achieve
28 key performance results, as well as whether the achievement of key
29 performance results resulted in cost savings for the agency.
- 30 b. For example, MD&A should explain how key performance achievements
31 and challenges affected budgetary or financing resources during the
32 reporting period.
- 33 c. However, the Board's intent is not to require the reporting of consolidated
34 governmentwide key performance results in the MD&A of the Financial
35 Report of the U.S. Government. When making its decision not to require
36 the reporting of consolidated governmentwide key performance results in
37 the MD&A of the Financial Report of the U.S. Government the Board
38 relied on the following:

- i. Paragraph 6 of SFFAC 4, which states: *the Financial Report of the U.S. Government [CFR] is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats both aggregated and disaggregated formats, such as individual agency reports, agency websites, or the President's Budget.*
- ii. The *Appendix on Reporting Entities* in the Financial Report of the U.S. Government which provides references to websites where users can review a reporting entity's MD&A discussion of key performance results and challenges.

A21. The Board's intent is for MD&A to explain what significant **opportunities** the reporting entity is managing in relation to performance achievements and challenges. For example, what is the reporting entity implementing or plans to implement to take advantage of opportunities that may enhance key performance results?

A22. The Board's intent is for MD&A to explain what significant **risks** the reporting entity is managing in relation to performance achievements and challenges. For example, what is the reporting entity implementing or plans to implement to address a significant risk that may have a negative effect on key performance results?

A23. Systems, Internal Controls, and Compliance

The Board believes that MD&A should provide an assessment of the reliability of the reporting entity's financial information by explaining significant weaknesses in the financial management system, related systems, internal controls, or non-compliance with applicable laws.

- a. MD&A should explain whether the reporting entity executed and recorded transactions in accordance with budgetary and financial laws and Federal accounting standards to prepare the agency financial report.

A24. Stewardship Investments

- a. SFFAS 57, *Omnibus Amendments 2019*, paragraph 2, rescinded SFFAS 8, *Supplementary Stewardship Reporting*, in its entirety, including the requirement for reporting information in the required supplementary stewardship information (RSSI) category.

Commented [GR20]:

Q7: Does this BfC adequately explain the Board's rationale to not require stewardship investment reporting in MD&A?

Staff note: at the December 2022 Board meeting members agreed to not include stewardship investments in MD&A and to add an explanation in the BfC.

- b. However, paragraph A11 stated *that the Board is conducting a project on improving MD&A, and the project will consider the SFFAS 57 respondents' concerns and suggestions*. The Board received eleven responses on SFFAS 57 from preparers, auditors, and professional associations.
- i. Paragraph A7 of SFFAS 57 noted that *the majority of respondents generally agreed with the Board's proposal to eliminate the RSSI category ... [because it] would remove a reporting requirement that users, in their observation, have not relied upon or utilized*.
- ii. Paragraph A8 noted *the respondents that did not agree [believed a] separate category highlights the importance of the stewardship information and distinguishes it from other information. Stewardship information also informs users on the extent of investments that provide long-term benefits for the nation*.
- c. The Board has considered the SFFAS 57 respondents' concerns by researching agency financial reports. Practice indicates that most reporting entities have concluded that information about stewardship investment is not significant enough to warrant inclusion in the MD&A and, therefore, are not reporting on stewardship investments in their agency financial reports. For example, the Financial Report of the United States Government has not included stewardship investments since FY 2019.
- e. Considering the direction of financial reporting practice since SFFAS 57 and the Board's findings during the development of the MD&A project, the Board has determined it would not propose standards requiring entities to report stewardship investments in the MD&A.
- g. This decision, however, does not preclude preparers from reporting stewardship investment information in MD&A.

RESCISSION AND REPLACEMENT OF SFFAS 15

- A25. **The** Board believes that this proposal should rescind SFFAS 15 because all relevant standards have been adapted into these proposed MD&A standards.

- 1 A26. The Board believes that this proposal has adapted all relevant standards-like
2 content from SFFAC 3. Therefore, *Omnibus Concepts Amendments 202X*
3 will propose to rescind SFFAC 3
4
- 5 A27. The Board does not intend for this proposal to affect other statements that
6 require information in MD&A, such as, SFFAS 37, *Social Insurance:*
7 *Additional Requirements for Management's Discussion and Analysis and*
8 *Basic Financial Statements*. The Board believes including the SFFAS 37
9 MD&A requirements in this proposal would cause duplication of information
10 already required in MD&A.
11

APPENDIX B: MD&A OBJECTIVES

The Board developed the proposed MD&A standards, by first identifying objectives for what it believed management should report in MD&A. The Board identified eleven MD&A objectives by analyzing the following concepts for the four reporting objectives (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems, controls, and compliance found in SFFAC 1, *Objectives of Federal Financial Reporting*, and SFFAC 3.

The first objective was general and did not relate to any specific reporting objective.

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

REPORTING BUDGET INTEGRITY IN MD&A

After analysis of the below budget integrity concepts found in SFFAC 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

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

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
Pg. 6, paragraph 13: Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.	<p>Pg. 13, paragraph 28: MD&A should concisely explain how budgetary resources have been obtained and used, instances in which their acquisition and use were not in accordance with legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the cost of program operations.</p> <p>MD&A should explain when major support for cost of a program or activity is provided outside the reporting entity's budget and when the entity's budget supports a program primarily reported by another entity.</p> <p>The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic</p>

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>Background and Rationale</p> <p>Pg. 5, paragraph 11: Questions this objective should address: What legal authority was provided for financing government activities and for spending the monies?</p> <p>Were the financing and spending in accordance with these authorities?</p> <p>Needs of Users of Federal Financial Reports</p> <p>Pg. 23, paragraph 89: All user groups need information about the budget... for assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility...</p> <p>Pg. 23, paragraph 91: ...They [users] need periodic information about the status of budgetary resources, that is, the extent to which the resources have been used or remain available.</p> <p>They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p> <p>Pg. 27, between paragraphs 115 and 116:</p> <p>Federal financial reporting should provide information that helps the reader to determine:</p> <p>Pg. 27, paragraph 116: Sub-Objective 1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.</p> <p>Pg. 28, paragraph 118: Sub-Objective 1B. The status of budgetary resources.</p>	<p>financial statements.</p> <p>Pg. 14, paragraph 29: MD&A should explain major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters management believes necessary. These could include: unfunded liabilities that may require appropriations; assets that could be sold to augment future budgetary resources; amounts of payments that have not been matched with obligations; anticipated increases in the cost to complete long-term projects in progress that may require additional obligations or appropriations.</p>

1

2 REPORTING OPERATING PERFORMANCE IN MD&A

3 After analysis of the below operating performance concepts found in SFFAC
4 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

5 4. MD&A should concisely explain if significant costs contributed to agency
6 performance.

7 5. MD&A should concisely explain reasons for significant changes in net cost
8 from the prior year and any significant cost trends over multiple years.

- 1 6. MD&A should provide an integrated discussion and analysis of the entity's
2 mission, organization, budget, cost, and performance, for the entity's
3 significant major program investments and the entity as a whole, including
4 what types of resources the entity used and what the entity achieved during
5 the reporting period.
- 6 7. MD&A should provide a concise/balanced discussion/summary of significant
7 financial and non-financial operating performance information, including
8 electronic references to legislative performance framework documents, such
9 as GPRAMA reporting, for the entity's major program investments and the
10 entity as a whole.

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
<p>Page 6, par. 14: Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities</p> <p>Sub-Objective 2A; Page 29, par. 126: The costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>SFFAC 1, Sub-Objective 2B;</p> <p>Page 29, par 128: The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p>	<p>Page 18, par. 43: MD&A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives.</p> <p>Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs.</p> <p>Information about effectiveness is often combined with cost information to help assess "cost effectiveness."</p> <p>SFFAC 3, Page 18, par. 44: The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period.</p> <p>...Financial performance is only one aspect of performance for governmental entities. Financial performance should be discussed to the extent relevant for the entity, <u>in a way that appropriately balances the discussion of financial and nonfinancial performance relevant to the program or other reporting entity.</u></p> <p>SFFAC 3, Page 18, par. 45: ...The summary discussion of performance in MD&A should: discuss the strategies and resources the agency uses to achieve its performance goals...</p> <p>SFFAC 3, Page 19, par. 47: To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.</p>

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
	<p>...Explanatory information helps report users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance.</p> <p>SFFAC 3, Page 19, par. 49: Explanatory information may include, for example, information about factors substantially outside the entity's control, as well as information about factors over which the entity has significant control.</p>

1

2 REPORTING STEWARDSHIP IN MD&A

3 After analysis of the below stewardship concepts found in SFFAC 1 and
4 SFFAC 3, the Board agreed on these objectives for MD&A.

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

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>SFFAC 1, Objectives of Federal Financial Reporting</p> <p>Pg. 7, paragraph 15: 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 <u>financial conditions have changed and may change in the future</u>.</p> <p>Pg. 7, paragraph 16: Federal financial reporting should provide information that helps the reader to determine whether the government's financial position <u>improved or deteriorated over the period</u>, future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and government operations have contributed to the nation's current and future well-being.</p> <p>SFFAC 1, Background and Rationale Pg. 5,</p>	<p>SFFAC 3, Background</p> <p>Pg. 9, paragraph 14: Regarding the financial statements, MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity: what is the entity's financial position? What is its financial condition?⁵ How did this Come about?</p> <p>What were the significant variations: from prior years? from the budget?⁶ from performance plans, long-term plans, or other relevant plans in addition to the budget?</p> <p>What is the potential effect of these factors, of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year's and, if yes, why? (Any such discussion should acknowledge that</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>paragraph 11: Questions this objective should address: Did the government's financial condition improve or deteriorate? What provision was made for the future?</p> <p>SFFAC 1, <i>The Needs of Users of Federal Financial Reports</i></p> <p>Pg. 24, paragraph 99: Citizens, Congress, executives, and program managers need information to assess the <u>effect of the government's activities on its financial condition</u> and that of the nation.</p> <p>Information is needed about the financial outlook for both the short and the long term. <i>[Staff Notes: forward looking]</i></p> <p>Pg. 24, paragraph 100: Information is needed on the government's exposure and risks associated with deposit insurance, pension insurance, and flood insurance <i>[Staff Notes: Addressed in SFFAS 51]</i>.</p> <p>People need to know about <u>likely future expenditures</u> for [example] cleaning up nuclear weapons sites and military bases.</p> <p>They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises <i>[Staff Notes: risks identified and profiled]</i>.</p> <p>Pg. 24, paragraph 102: Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p> <p>SFFAC1, <i>Stewardship; Objective 3</i></p> <p>Pg. 31, 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity.</p> <p>It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions...</p> <p>Pg. 31, between paragraphs 135 and 136:</p> <p>Federal financial reporting should provide information that helps the reader to determine:</p> <p>Pg. 31, paragraph 136: Sub-Objective 3A. Whether the government's financial position improved or deteriorated over the period.</p>	<p>the future is unpredictable and will be influenced by factors outside the reporting entity's control, including actions by Congress.)</p> <p>⁵The traditional concepts of "financial position" and "financial condition" are typically applicable to revolving funds, Government corporations, and other reporting entities that are intended to be self-financing. The concepts may be less relevant, or may require some qualification or modification, for other kinds of Federal reporting entities.</p> <p>⁶Management should use its judgment to decide what variances are relevant for MD&A. It will not always be essential or appropriate to discuss all variances.</p> <p>SFFAC 3, <i>DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS</i></p> <p>Pg. 13, paragraph 26: <u>Financial Results, Position and Condition</u>—MD&A should help those who read it to understand the entity's financial results and financial position and the entity's effect on the financial position and condition of the Government.</p> <p>It should give readers the benefit of management's understanding of the significance and potential effect from both a short- and a long-term perspective of: the variations discussed in paragraph 14 in terms of major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays;</p> <p>particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with funds from dedicated collections, if relevant to important financial management issues and concerns; and the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).</p> <p>Pg. 13, paragraph 27: Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed.</p> <p>Not all changes that are material to the GPFFR are sufficiently important to be included in</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>Pg. 31, paragraph 137: Assessing whether the government's financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications.</p> <p>This is because <u>analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.</u></p> <p>Pg. 31, paragraph 138: ... help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits. <i>[Staff Notes: forward looking time horizons]</i></p> <p>Pg. 31, paragraph 139: sub-objective 3b. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</p> <p>Pg. 32, paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government.</p> <p>Users of financial reports also want help in assessing the likelihood that the government will continue to provide the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.</p> <p>Pg. 32, paragraph 141: Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible. <i>[Staff Notes: risks that have a significant financial impact]</i></p> <p>Pg. 32, paragraph 143: sub-objective 3c. Whether government operations have contributed to the nation's current and future well-being.</p> <p>Pg. 32, paragraph 144: Objective 3, sub-objective 3C, imply a concern with "financial condition," as well as "financial position."</p> <p>Financial condition is a broader and more forward-looking concept than that of financial position.</p> <p>Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself.</p>	<p>MD&A. A line-by-line analysis of the financial statements is not generally appropriate.</p> <p>Instead, MD&A should summarize the most important items, explain the relevant causes and effects, and place them in context.</p> <p>Pg. 14, paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u></p> <p>MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends--both favorable and unfavorable--that affect the amounts reported in the financial statements and supplementary information.</p> <p>Pg. 14, paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u></p> <p>The discussion of these current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments¹² undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>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.</p> <p>Pg. 32, paragraph 145: Indicators of financial <u>position</u>, measured on an accrual basis, are the starting point for reporting on financial <u>condition</u> ... Reports...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.</p> <p>Information on trends in total national wealth and income is also important.</p>	

REPORTING SYSTEMS, CONTROLS, AND COMPLIANCE IN MD&A

After analysis of the below systems, controls and legal compliance concepts found in SFFAC 1 and SFFAC 3, the Board agreed on these objectives for MD&A.

10. MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.
11. MD&A should include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material weaknesses. This includes references to other sections that have a more in depth discussion of those items.

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>Pg. 7, 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 purpose authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud,</p>	<p>Pg. 10, paragraph 15: Regarding systems and controls, MD&A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term "management controls") are adequate to ensure that:</p> <p>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</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
<p>waste, and abuse; and performance measurement information is adequately supported.</p> <p><i>Pg. 5, paragraph 11:</i> Questions this objective should address: Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?</p> <p><i>The Needs of Users of Federal Financial Reports</i></p> <p><i>Pg. 25, paragraph 103:</i> Users at all levels need information on internal controls and the adequacy of financial management systems.</p> <p>Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government.</p> <p>They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended.</p> <p>Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well.</p> <p>Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.</p> <p><i>Pg. 33, paragraph 149:</i> Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.</p> <p><i>Pg. 33, paragraph 150:</i> Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management's assertion about the effectiveness of the internal accounting and operational control system.</p>	<p>standards; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.</p> <p><i>Pg. 10, paragraph 16:</i> Reporting information that helps people assess the condition of the entity's management systems and of the relevant internal controls is an important objective of Federal financial reporting.</p> <p>The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p><i>Pg. 10, paragraph 17:</i> An entity's ability to prepare auditable financial statements and other reliable reports for management from the entity's books and records is a positive signal about the finance-related systems and controls of that entity.</p> <p>By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity's management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p>For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements.</p> <p>This information—like the information on performance—is presented in a discrete section of the GPFFR; alternatively it may be incorporated in the GPFFR by reference to separate reports such as those required by the Integrity Act.</p> <p>MD&A should therefore address the most important facets of this information on systems, controls and legal compliance, as well as the financial statements, supplementary information, and performance information.</p> <p><i>SFFAC 3, Discussion and Analysis of Systems, Controls and Legal Compliance</i></p> <p><i>Pg. 17, paragraph 41:</i> ... Where relevant, management should describe the methods used to</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	MD&A Concepts about Systems and Controls from SFFAC 3
	limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&A should include a concise description of any major problems in these areas and of the corrective action taken or planned.

1

2

APPENDIX C: DRAFT MD&A VISION FRAMEWORK

The Board drafted the following **MD&A vision framework** based on the MD&A objectives discussed in Appendix B.

- MD&A should summarize information about the financial position and condition of the reporting entity by discussing the entity's mission, organization, and key financial and performance results to inform users of its financial health and sustainability of major programs.
- Therefore, MD&A should be an objective, concise, and easily readable summary analysis of
 - the essential few matters causing significant changes to the entity's (1) financial statement amounts during the current reporting period and (2) financial, budgetary and key performance trends over past reporting periods;
 - the current and planned actions that will address the essential few opportunities, challenges, and risks that could significantly affect financial statement amounts and key performance results in the future; and
 - the essential few conditions related to systems and controls that could affect the entity's ability to produce reliable financial information.
- MD&A may also include references to websites or other areas of the agency financial report that provide additional information when applicable.

APPENDIX D: ABBREVIATIONS

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

FASAB Members

- George A. Scott, Chair
- R. Scott Bell
- Gila J. Bronner
- Robert F. Dacey
- Sallyanne Harper
- Carol Johnson
- Patrick McNamee
- Terry K. Patton
- Raymond Vicks

FASAB Staff

- Monica R. Valentine, Executive Director
- Robin M. Gilliam, Assistant Director

Federal Accounting Standards Advisory Board

- 441 G Street, NW
- Suite 1155
- Washington, D.C. 20548
- Telephone (202) 512-7350
- Fax (202) 512-7366

Track Changes from
December 2022 to February 2023
TOPIC D - **MD&A**
February 3, 2023
Attachment 3

A. PURPOSE OF THE MD&A

The purpose of ~~the~~ MD&A is to increase the understandability and usefulness of a reporting entity's general purpose federal financial ~~reports~~report (GPFFR) by ~~communicating~~summarizing management's insights about its financial position, financial condition, ~~and~~ operating performance. ~~To accomplish this purpose, management should present a streamlined narrative in MD&A that is balanced, integrated, concise, opportunities, risks, and systems, internal controls, and understandable..compliance.~~
This proposed statement presents ~~preparer~~ guidance in two categories: 1) Presenting Information in MD&A, and 2) Information Discussed and Analyzed in MD&A to accomplish a streamlined narrative.

Presenting Information in MD&A explains how management should present ~~information to achieve a streamlined narrative, and a balanced, integrated, concise, and understandable MD&A. While,~~ Information Discussed and Analyzed in MD&A identifies what information management should present about in MD&A to explain how and why the organization's mission, opportunities and risks, and systems, internal controls, and compliance significantly contributed to the improvement or deterioration of the reporting entity's financial position, financial condition, and ~~operating~~key performance results.

PRESENTING INFORMATION IN MD&A

Balanced

Proposed standard

To achieve a balanced MD&A, management should include information about events, conditions, ~~and/or~~ trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, ~~and/or~~ operating performance.

Proposed basis for conclusions

~~Balanced is the first of four characteristics that the Board believes will guide management in how to present a streamlined narrative for MD&A.~~ The Board believes that a balanced MD&A should explain both positive and negative effects. ~~This language~~

~~was adapted from SFFAC 3, paragraph 46 that states including both positive and negative results. A balanced MD&A will to~~ help users ~~to~~ understand the important reasons for changes ~~into~~ the reporting entity's financial position, financial condition, and ~~for~~ operating performance.

a. A balanced MD&A should also include trend information over multiple prior reporting periods to help users understand any possible positive or negative future effects on amounts reported in the financial statements or supplementary information.

b. For example, management may discuss and analyze performance results during the current reporting period, or over multiple reporting periods that had a significant (1) positive effect (e.g., accomplishments that resulted in reduced costs); or (2) negative effect (e.g., challenges that resulted in increased costs) on financial position and financial condition. ~~It is not the Board's intent for management to include an equal amount of positive and negative effects because a reporting entity could have more positive effects than negative effects or more negative effects than positive effects to report.~~

~~It is the Board's intent that a balanced MD&A also provide trend information over multiple prior reporting periods that will help users understand a reporting entity's current financial position, financial condition, and operating performance and any possible positive or negative effects into the future. Therefore, the Board adapted concepts from SFFAC 3, paragraphs 31, 32, 33, and 46 that supports including favorable and unfavorable trends that could inform management on the possible future effects on amounts reported in the financial statements and supplementary information.~~

Integrated

Proposed standard

To achieve an **integrated MD&A**, management should combine financial and non-financial information, and qualitative and quantitative information to present a comprehensive and unified discussion about the reporting entity's significant programs, projects, and/or key performance results.

Proposed basis for conclusions

~~Integrated is the second of four characteristics that~~ The Board believes ~~will guide management in how to present a streamlined narrative for MD&A.~~ an integrated MD&A weaves together quantitative, qualitative and quantitative, and financial, and non-financial information, ~~that is related to a point of reference, for example,~~

a. For example, a reporting entity could weave together this information by each a "major" program, as defined by the reporting entity's in its Statement of Net Cost.

~~Including financial and non-financial information was adapted from SFFAC 3, paragraphs 4, 36, and 44. These paragraphs emphasized that MD&A should explain the significance of key financial and nonfinancial information shown in the report.~~

b. ____ For example, management may present the interrelationship of budgetary, financial, and operating performance information for ~~program~~each program supported by the reporting entity as a whole and across its component entities”.

Concise

Proposed standard

To achieve a concise MD&A, management should summarize information ~~(1)~~ by

a. ____ emphasizing the vital few matters that significantly affect the reporting ~~entity's~~entity's financial position, financial condition, ~~and~~/or operating performance results; ~~(2) by avoiding duplicating~~

b. ____ providing the information with references necessary to explain the detailed information found outside that management may reference from other areas of MD&A; and (3) by the GPFFR, other audited documents, or unaudited government documents; and

c. ____ presenting information that is relevant for the current year to the reporting entity's financial report-including prior and future reporting periods to limit boilerplate language.

Proposed basis for conclusions

~~Concise is the third of four characteristics that~~ The Board believes ~~will guide management in how to present a streamlined narrative for MD&A.~~

~~To achieve that~~ a concise MD&A ~~, information should only include report~~ the vital few matters ~~that have significantly affected for information required in proposed standards in Information Discussed and Analyzed in MD&A. For example, when discussing a significant change in net cost, the MD&A should be limited to the information necessary to understand the reporting entities financial position, financial condition, and/or key operating performance results reasons for the significant change.~~

a. ____ The Board believes that a concise MD&A ~~also summarizes information by providing references to detailed information found outside MD&A. For example, management may provide references to another area of the reporting entity's GPFFR that provides detailed summarized information with a summary of that information in is sufficient to meet the MD&A. In another needs of its users.~~

i. ____ For example, management could also to summarize information, MD&A should provide a brief discussion about the reporting entity's operating performance with reference to the additional detailed performance information and summarize that information found within the GPFFR or in the MD&A. another government document.

ii. Management should acknowledge when it provides a reference to detailed information that is unaudited.

It is the Board's intent

b. The Board believes that a concise MD&A will~~should~~ discourage the use of boilerplate language and management will be deliberate in by presenting only including timely and relevant information relevant for the current year, as opposed to repeating the same information year after year about the agency financial report, including prior and future periods.

Understandable

Proposed standard

~~Management should present content in plain language, use headers to identify interrelated content, and as appropriate include charts, tables, and/or graphs to enhance the understanding of the MD&A.~~

To achieve an **understandable MD&A**, management should present content in plain language, organize information by related content, and as appropriate include charts, tables, graphs, or any combination thereof to enhance the understanding of the MD&A for those who may not have an extensive knowledge of U.S. Government operations or an extensive financial or accounting background.

Proposed basis for conclusions

The Board believes that an MD&A should be understandable to any user who may not have an extensive knowledge of U.S. Government operations or an extensive financial or accounting background. ~~Management should present content in plain language, use headers to identify specific content, and as appropriate, include charts, tables, and/or graphs to enhance the understanding of the MD&A.~~

~~Understandable is the fourth of four characteristics that the Board believes will guide management in how to present a streamlined narrative for MD&A. The Board's intent is for MD&A to be understandable to any user who may not have an extensive knowledge of U.S. Government operations or an extensive financial or accounting background. Therefore, MD&A is understandable when written in plain language to help users understand (1) whether a reporting entity is achieving its mission; (2) what financial and performance challenges the entity faced; and (3) what budgetary resources or financial sources were needed.~~

a. MD&A is understandable when written in plain language to explain management's insights about its financial position, financial condition, operating performance, opportunities, risks, and systems, internal controls, and compliance.

b. To achieve an understandable MD&A, management has the flexibility to combine different methods of presenting information that appeal to a variety of users. For example, an understandable MD&A may ~~The Board recognizes that management may~~

need to include organizational tools, such as headers, sub-headers, bullet-points, ~~and/or crosswalks to financial reports, as a reference for related information, to increase the understandability of the MD&A. An understandable MD&A may also include; and~~ visual aids, such as charts, tables, or graphs to help explain ~~a narrative. The Board believes that management should have the flexibility to combine different methods of presenting information to appeal to a variety of users~~quantitative information.

B. INFORMATION DISCUSSED AND ANALYZED IN MD&A

Organization and Mission

Proposed standard

[MD&A should discuss and analyze] The organization and mission of the reporting entity.

Proposed basis for conclusions

The ~~Board believes~~Board's intent is for MD&A ~~should contain~~to provide a brief description of the reporting entity's mission(s) ~~of the reporting entity and its components. In developing this proposed standard, the Board adapted SFFAC 3, paragraph 25 that stated that MD&A should contain a brief description of the mission(s) of the entity and describe its related~~ organizational structure. ~~The brief description sets the stage, including any components,~~ to help users understand the key results ~~the reporting entity~~it expected to achieve and the funding needed during the reporting period to achieve those results.

a. Management ~~should have~~has the flexibility to determine how much information to include about the mission(s) and organizational structure ~~and mission(s)~~ in relation to the size and complexity of the reporting entity.

b. For example, a large reporting entity could provide a brief summary about the reporting entity as a whole and a summary for each significant component/agency entity, while a small reporting entity could provide just a brief summary about the entire reporting entity.

Financial Position and Condition

a. Proposed standard

[MD&A should discuss and analyze] The improvement or deterioration of the reporting entity's financial position and condition during the reporting period due to significant changes and trends in

- a. the composition and/or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources;
- b. business-type activity, social insurance, and long-term fiscal projections;

c. other required supplementary information; and

~~d. significant stewardship investments.~~

b. Proposed basis for conclusions

The Board's intent is for MD&A to explain what caused ~~an a significant~~ improvement or deterioration ~~of in~~ the reporting entity's **financial position and condition**. ~~The Board developed this proposed standard, [paragraph ##]: based on SFFAC 3, paragraph 14 which states: Federal financial reporting should provide information that helps the reader to determine whether the government's financial position improved or deteriorated over the period. This proposed standard should guide management to provide explanations to questions from SFFAC 3, paragraph 14: What is the entity's financial position? What is its financial condition? How did this come about? What were the significant variations: from prior years?~~

~~In developing this proposed standard the Board also considered concepts written as standards-like language from SFFAC 3, paragraph 26, which states that MD&A should help those who read it to understand the entity's...financial position and the entity's effect on the financial position and condition of the Government. It should give readers the benefit of management's understanding of the significance and potential effect from both a short and a long-term perspective of ... major changes in types or amounts of assets, liabilities, costs, revenues ...; particular balances and amounts shown in the basic financial statements, including the notes, ... and the entity's required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).~~

~~Although SFFAC 3 addresses RSSI, in 2019 SFFAS 57, Omnibus Amendments 2019 rescinded SFFAS 8, Supplementary Stewardship Reporting. As a result of SFFAS 57, the last RSSI reporting requirement—stewardship investments was eliminated. SFFAS 57 did however, identify two open issues in the non-authoritative basis for conclusions (1) the reporting of SI in MD&A [paragraphs A8—A10], and (2) providing guidance for reporting SI in MD&A [paragraph A11].~~

~~The Board believes that because this proposed standard includes “significant stewardship investments”, [paragraph ##], that it has closed the open item noted in paragraphs A8—A10.~~

~~The Board includes the following information from rescinded SFFAS 8 to address the open item noted in paragraph A11. The Board believes it may be relevant to help guide management to determine if they should report SI in MD&A.~~

a. ~~Excerpts from SFFAS 8, Supplementary Stewardship Reporting (2019 Handbook Version)~~

~~The Board believes that significant changes in the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources; business-type activity, social insurance, and long-term fiscal projections; and other required supplementary information will provide the information necessary for a user to understand the status of the reporting entity's financial position and condition.~~

~~12: "Stewardship investments" are substantial investments made by the Federal Government for the benefit of the nation.~~

~~Summary Paragraph e: Stewardship Investments – items treated as expenses in calculating net cost but meriting special treatment to highlight their substantial investment and long-term benefit nature. This includes:~~

~~—— Nonfederal Physical Property – grants provided for properties financed by the Federal Government, but owned by the state and local governments.~~

~~—— Costs incurred for education and training programs that are designed to increase or maintain national economic productive capacity and research efforts to provide future benefits or returns. These include:~~

~~—— Human Capital – education and training programs financed by the Federal Government for the benefit of the public.~~

~~—— Research and Development – basic and applied research and development.~~

~~**Chapter 5:** "Investment in nonfederal physical property" refers to those expenses incurred by the Federal Government for the purchase, the construction, or the major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other physical assets. Grants for maintenance and operations are not considered investments.~~

~~**Chapter 6:** "Investment in human capital" refers to those expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.~~

~~The definition excludes education and training expenses for Federal civilian and military personnel. It also excludes education and training expenses whose purpose is not maintaining or enhancing national productive capacity.~~

~~**Chapter 7:** "Investment in research and development" refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved~~

~~products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of~~

- ~~• Basic research: systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind;~~
- ~~• Applied research: systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met; and~~
- ~~• Development: systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.~~

~~The Board included a question for respondents to learn whether reporting entities need additional information to include SI in their MD&A. Responses will assist the Board in considering whether a new project is needed to develop specific guidance for reporting stewardship investments in MD&A. The Board believes this action closes the open item noted in SFFAS 57 paragraph A-11.~~

Performance

Proposed standard

[MD&A should discuss and analyze] the reporting entity's key performance¹ results² and the associated financial effects on budgetary ~~and/or~~ financing resources₁.

.

Proposed basis for conclusions

~~The Board's intent is for management to~~ The Board believes that MD&A should explain what **performance results** are key to the reporting entity, and ~~therefore, should be included in the MD&A. The Board believes that associated cost.~~

- a. MD&A should focus on what it ~~cost~~costs the agency to pursue or to achieve key performance results. ~~Therefore, MD&A should explain how budgetary and/or financing resources were impacted,~~ as a result of

¹ Key "Performance results" refers to both performance accomplishments and performance challenges. Management uses judgement in identifying what performance results are **key** to the reporting entity.

² The Financial Report of the U.S. Government is not required to provide an analysis of consolidated governmentwide performance results, but may refer to the availability of performance information in agency financial reports.

operating well as whether the achievement of key performance results resulted in cost savings for the agency.

- a.b. For example, MD&A should explain how key performance achievements and challenges. SFFAC 1, paragraph 126, 2A provided the following guidance for the Board to develop this proposed statement [paragraph ###]: *Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes in, these costs; and paragraph 128. 2B, states that...the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs* affected budgetary or financing resources during the reporting period.

~~The Board also adapted SFFAC 3, paragraphs 43 and 44, which emphasized that *efficiency and effectiveness are important elements of performance measurement and is often combined with cost information to help assess "cost effectiveness".*~~

~~The Board **did not adapt** SFFAC 3, paragraph 45, which states: *the discussion of performance should relate to major goals and objectives from the agency's strategic plan and to the indicators reported pursuant to the Results Act.* This concept includes standards-like language that requires agencies to report performance in the MD&A using the government performance results act (GPRA) reporting requirements. The Board does not want information duplicated from the GPRA MA reports because that information is statistical and not financial. The reporting period for GPRA-MA is different from the agency financial reporting period and would add burden to entities due to additional time to align the information. However, the Board believes that a reference to the GPRA-MA reports would be useful.~~

- c. The Board also considered the nature and extent of reporting. However, the Board's intent is not to require the reporting of consolidated governmentwide key performance results in the MD&A of the Financial Report of the U.S. Government and decided against a proposed requirement due to the aggregated nature of the report. The Board's decision was based on-. When making its decision not to require the reporting of consolidated governmentwide key performance results in the MD&A of the Financial Report of the U.S. Government the Board relied on the following:

- i. Paragraph 6 of SFFAC 4, which states: *the Financial Report of the U.S. Government [CFR] is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats both aggregated and disaggregated formats, such as individual agency reports, agency websites, or the*

~~President's Budget. The Appendix on Reporting Entities provides a list of reporting entities included in the Financial Report of the U.S. Government and references to their websites. President's Budget.~~

- ii. ~~The Appendix on Reporting Entities in the Financial Report of the U.S. Government which provides references to websites where users can review a reporting entity's MD&A discussion of key performance results and challenges.~~

Opportunities:

a. Proposed standard

[MD&A should discuss and analyze] the significant opportunities³ identified by management to enhance performance results, plans to leverage such opportunities, and the potential impact on financial and budgetary results of carrying out those plans;⁴

b. Proposed basis for conclusions

~~The Board did not acknowledge **opportunities** when deliberating and publishing SFFAC 3 and SFFAS 15 in 1999. However, the current Board does acknowledge that opportunities are a significant factor for the reporting entity's performance results now. Therefore, the Board believes that it would be helpful for users to understand The Board's intent is for MD&A to explain what significant **opportunities** the reporting entity is managing in relation to performance achievements and challenges. For example, what is the reporting entity implementing or plans to implement to take advantage of opportunities that may enhance key performance results?.~~

~~To provide adequate guidance to management on what an opportunity is as it relates to MD&A, the Board referred to the Chief Financial Officers Council (CFOC) and Performance Improvement Council (PIC) which defines an **opportunity** as a favorable or positive event. In context of risk management, it refers to the possibility that an event will occur and positively affect the achievement of objectives, which the Board has decided to use as the description for purposes of this proposed Statement [paragraph ##].~~

³ "Significant opportunities" for the purposes of MD&A, is anything that may have a significant positive affect on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant opportunities.

⁴ Plans are actions the reporting entity expects to execute during the current reporting period (short-term) and into the future (long-term).

~~Users should understand what plans the reporting entity would implement in relation to opportunities and performance. In developing this proposed standard, the Board adapted SFFAC 3, paragraph 47, which states: to further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.~~

Risks:

a. Proposed standard

[MD&A should discuss and analyze] the significant risks⁵ identified by management that have a potentially negative effect on performance results, plans to mitigate such risks, and the potential impact on financial and budgetary results of carrying out those plans.

b. Proposed basis for conclusions

~~Risk has been an integral part of MD&A since with the publication of SFFAC 3 and SFFAS 15. Therefore, the Board believes that it would be helpful for users to understand~~The Board's intent is for MD&A to explain what significant **risks** the reporting entity is managing in relation to performance achievements and challenges. For example, what is the reporting entity implementing or plans to implement to address a significant risk that may have a negative effect on key performance results?

~~To provide adequate guidance to management on what a risk is, the Board referred to the CFOC and PIC that defines a risk as the effect of uncertainty on achievement of objectives. The Board believes that this description is appropriate for the purposes of this proposed Statement, [paragraph ###] in so far as in this proposed Statement negative effects are referenced when discussing risks and positive effects when discussing opportunities.~~

~~In developing this this proposed Statement, [paragraph ###], the Board adapted SFFAC 3, paragraphs 31, 32, 33, and 49, which emphasizes: the discussion should also encompass the possible future effects of anticipated future events to help users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance.~~

~~To understand what plans the reporting entity will implement in relation to risks and performance, the Board adapted SFFAC 3, paragraph 47, which states: to further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.~~

Systems, Internal Controls, and Compliance

⁵ "Significant risks" for the purposes of MD&A, is the effect of significant uncertainty on a reporting entity's ability to achieve its performance results. Management should use judgement in determining significant risks.

a. Proposed standard

[MD&A should ~~discuss and analyze~~] ~~the summary information about (1)~~provide management's summary assessment of

- a. the effectiveness of the reporting entity's internal controls and financial management systems, and
- b. ~~(2)~~ the reporting entity's compliance with applicable laws⁶, regulations, contracts, and grant agreements that are relevant to financial reporting.
- c. Such reporting should address internal control weaknesses, systems deficiencies, and instances of non-compliance that have a significant ~~/material~~ effect on the reporting entity's financial and performance reporting; and plans the reporting entity has to address them.

b. Proposed basis for conclusions

a. _____ The Board believes that ~~management~~MD&A should provide an assessment of the reliability of the reporting entity's financial information by explaining significant weaknesses in the financial management system, related systems, internal controls, ~~and/or non-compliance with applicable laws. Therefore, the Board adapted SFFAC 3, paragraph 15, which states: MD&A should tell the reader whether 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 acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.~~or non-compliance with applicable laws.

b. MD&A should explain whether the reporting entity executed and recorded transactions in accordance with budgetary and financial laws and Federal accounting standards to prepare the agency financial report.

Stewardship Investments

- a. SFFAS 57, Omnibus Amendments 2019, paragraph 2, rescinded SFFAS 8, Supplementary Stewardship Reporting, in its entirety, including the requirement for reporting information in the required supplementary stewardship information (RSSI) category.

⁶ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

- b. However, paragraph A11 stated that the Board is conducting a project on improving MD&A, and the project will consider the SFFAS 57 respondents' concerns and suggestions. The Board received eleven responses on SFFAS 57 from preparers, auditors, and professional associations.

~~The Board also adapted concepts from SFFAC 3, paragraph 16, which states: reporting information that helps people assess the condition of the entity's management systems and of the relevant internal controls is an important objective of Federal financial reporting. The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws. In addition, the Board adapted, SFFAC 3, paragraph 17, which states: an entity's ability to prepare auditable financial statements and other reliable reports for management from the entity's books and records is a positive signal about the finance-related systems and controls of that entity. By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity's management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws. For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements.~~

- i. Paragraph A7 of SFFAS 57 noted that the majority of respondents generally agreed with the Board's proposal to eliminate the RSSI category ... [because it] would remove a reporting requirement that users, in their observation, have not relied upon or utilized.
- ii. Paragraph A8 noted the respondents that did not agree [believed a] separate category highlights the importance of the stewardship information and distinguishes it from other information. Stewardship information also informs users on the extent of investments that provide long-term benefits for the nation.
- c. The Board has considered the SFFAS 57 respondents' concerns by researching agency financial reports. Practice indicates that most reporting entities have concluded that information about stewardship investment is not significant enough to warrant inclusion in the MD&A and, therefore, are not reporting on stewardship investments in their agency financial reports. For example, the Financial Report of the United States Government has not included stewardship investments since FY 2019.
- d. Considering the direction of financial reporting practice since SFFAS 57 and the Board's findings during the development of the MD&A project, the Board

has determined it would not propose standards requiring entities to report stewardship investments in the MD&A.

This decision, however, does not preclude preparers from reporting stewardship investment information in MD&A.

MEMBER COMMENT FORM
TOPIC D – MD&A: ATTACHMENT 4
February 2023

Please provide your responses below.

Question #1 for the Board:

Does the content in the Executive Summary answer both questions? [Page 4]

Member Initials	Yes or No	If not, what significant changes do you recommend?

Question #2 for the Board:

Will the proposed Questions for Respondents provide members with the necessary feedback to finalize this statement?" [Pages 6-7]

Member Initials	Yes or No	If not, what significant changes do you recommend?

Question #3 for the Board:

Members should confirm that the content in the Purpose of MD&A paragraph states the Board's intent for this proposed Statement. [Paragraphs #6 & #7]

Member Initials	Confirmed	If not, what significant changes do you recommend?

MEMBER COMMENT FORM
TOPIC D – MD&A: ATTACHMENT 4
February 2023

Question #4 for the Board:

Members should confirm that the content in this proposed standard meets the Board's intent for presenting a "concise" MD&A. [Paragraph #9]

Member Initials	Confirmed	If not, what significant changes do you recommend?

Question #5 for the Board:

Members should confirm that the content in this proposed standard meets the Board's intent for reporting whether the reporting entity's financial position and condition has improved or deteriorated. [Paragraph 12.b.]

Member Initials	Confirmed	If not, what significant changes do you recommend?

Question #6 for the Board:

Do members agree that this basis for conclusion explains the Board's rationale for the proposed standard on how to achieve a "concise" MD&A? [Paragraph #A15]

Member Initials	Yes or No	If not, what significant changes do you recommend?

Question #7 for the Board:

Do members agree that this basis for conclusion adequately explains the Board's rationale for NOT requiring the reporting of stewardship investments in MD&A? [Paragraph #A24]

Member Initials	Yes or No	If not, what significant changes do you recommend?