

Memorandum

MD&A

May 26, 2023

To: Members of the Board

From: Robin M. Gilliam, Assistant Director

Thru: Monica R. Valentine, Executive Director

Subject: **MD&A Pre-Ballot Draft Exposure Draft with Alternative View** (Topic D)

INTRODUCTION

Staff presents the Management's Discussions and Analysis (MD&A) draft exposure draft with Ms. Johnson's alternative view for a pre-ballot. The attached pre-ballot exposure draft includes one additional question for respondents and updates to the basis for conclusions to address the alternative view.

Staff requests responses to the ensuing questions by **June 7, 2023**. Please use the separate Word document in **Attachment 6, *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

Ballot the MD&A exposure draft and send to stakeholders for 90 day comment period.

ATTACHMENTS

1. Staff Analysis and Recommendations
2. Alternative View
3. MD&A Pre-Ballot Exposure Draft - Clean Version
4. MD&A Pre-Ballot Exposure Draft – Track Changes
5. SFFAS 15 - *Management's Discussion and Analysis*
6. Member Comment Form

Staff Analysis

TOPIC D - MD&A

May 26, 2023

Attachment 1

CONTEXT

The Board last reviewed a draft of the MD&A exposure draft (ED) at its April 18, 2023 meeting. The members also discussed an alternative view presented by Ms. Carol Johnson on the MD&A proposal. Based on the discussions at the April meeting, Ms. Johnson noted that she would like to update her alternative view.

Staff received Ms. Johnson's updated alternative view on April 24, 2023 (Attachment 2). Staff forwarded the updated alternative view to members for preliminary feedback. Staff received preliminary feedback from members, which is reflected in staff's analysis and updates to the pre-ballot exposure draft. No other members have informed staff that they plan to join Ms. Johnson's alternative view.

STAFF ANALYSIS AND RECOMMENDATIONS

Ms. Johnson's alternative view¹ addresses the following concerns with the draft MD&A ED (the proposal).

I. MD&A REPORTING IMPROVEMENTS

A42. First, Ms. Johnson believes that there are no significant differences between the required contents and characteristics of the MD&A under the ED and under SFFAS 15. Both require information about: (1) the entity's mission and organizational structure; (2) entity-level performance; (3) financial position and condition, including significant changes to financial position and/or condition and relevant prior-period, current-period, and forward-looking information; (4) financial and performance risks; and (5) an assessment of the entity's financial management systems, controls, and legal compliance. Both require the MD&A to be balanced, concise, and clear or understandable.²

¹ Paragraphs from Ms. Johnson's alternative view are included here verbatim. The entire alternative view is available in the ED, paragraphs A39-A49.

² SFFAS 15, paragraph 1, states that the MD&A needs to be "clear," "concise," and "balanced;" paragraph 5 states that the "MD&A must be concise if it is to be useful;" and paragraph 6 states that the "MD&A should deal with the vital few matters."

The Board's position is that the MD&A proposal offers improvements over the standards in SFFAS 15. This proposal is the result of four years of staff work and Board deliberations. During that time, the Board identified eleven MD&A objectives that align with the four reporting objectives of SFFAC 1 (budgetary integrity, operating performance, stewardship, and systems and controls). From the eleven objectives, the Board drafted the MD&A vision framework, and then tested both the objectives and framework through the MD&A pilot.

While both SFFAS 15 and the proposal require similar information, the following are examples of some improvements the proposal offers:

1. The proposal does not include the MD&A sections, as required in SFFAS 15.
2. The proposal includes broad principles-based standards on **what** the reporting entity should present about its organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable³ laws and regulations.
3. The proposal does not include references to GPRA-MA content as stated in SFFAS 15's section title— *performance goals, objectives, and results*⁴. Instead the proposal notes that the MD&A should include entity information on *key performance results, and the associated costs*⁵. This improvement links costs to performance results to help provide a more complete picture of the reporting entity's operating and financial performance.
4. The proposal requires information about the underlying causes of *significant changes and trends in financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources*⁶; whereas SFFAS 15 only requires *forward-looking information regarding the possible future effects of the most important existing, currently-known... trends*⁷.
5. The proposal provides broad principle-based guidance on **how** the reporting entity should present a **balanced, concise, integrated, and understandable** MD&A. These four characteristics offer an improvement over SFFAS 15 because
 - i. the proposal adds "integrated" and "understandable" to the two characteristics found in SFFAS 15—"balanced" and "concise"—to

³ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

⁴ SFFAS 15, paragraph 2

⁵ ED, paragraph 12.c

⁶ ED, paragraph 12.b

⁷ SFFAS 15, paragraph 3

complete the characteristics the Board believes are necessary to explain **how** to present MD&A; and

- ii. the four proposed characteristics offer comprehensive “how to” principle-based guidance as opposed to the scattered and disconnected “how to” requirements in SFFAS 15 for example:
 1. paragraph 1 includes, *MD&A should provide a clear and concise description of ...;*
 2. while paragraph 5 says, *Because MD&A must be concise if it is to be useful; and*
 3. paragraph 6 mentions, *MD&A should deal with the “vital few” matters.*

A43. *Unlike SFFAS 15, the ED states explicitly that the MD&A should be “integrated.”⁸ Ms. Johnson agrees with this requirement and notes that OMB amended A-136 in FY 2018 to stress that the MD&A should be integrated. In addition, Ms. Johnson believes that the concept of an integrated MD&A is integral to and implicit in the “concise” and “clear” requirements already included in SFFAS 15. Consequently, the explicit reference to integrated in the ED might not be critical to ensuring that MD&As are integrated. Also, Ms. Johnson notes that in FY 2021, OMB further amended A-136 to promote integrated MD&As by allowing management to choose section titles, which could, but do not need to, correspond to each type of information required by SFFAS 15.⁹*

The Board believes that “integrated” is an important characteristic on how to present information in MD&A. The Board also believes that concise is a separate and distinct characteristic from “integrated”. An “integrated” MD&A *combines financial and non-financial information, and qualitative and quantitative information to present a comprehensive and unified discussion and analysis.*¹⁰ Whereas, “concise” emphasizes the vital few matters; summarizes and refers to relevant detailed information from other areas of the GPFFR; and limits the use of boilerplate language.¹¹

The Board acknowledges the updates OMB has made to improve MD&A reporting in A-136, *Financial Reporting Requirements*. However, FASAB establishes generally accepted accounting principles (GAAP) for the federal government through its pronouncements. This proposal will be level A guidance in the GAAP hierarchy.

⁸ ED, paragraph 10

⁹ As noted in A-136, Section II.2.1, one section title, “Analysis of Systems, Controls, and Legal Compliance,” is required because of a requirement in OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*.

¹⁰ ED, paragraph 10

¹¹ ED, paragraph 9

II. RESCINDING AND REPLACING SFFAS 15

*A44. **Second**, Ms. Johnson is concerned that rescinding SFFAS 15 and issuing a new MD&A standard, as proposed in the ED, might imply that the MD&A requirements are being changed extensively, which, as noted above, she does not believe is the case. Ms. Johnson believes that this perception of significant changes resulting from the ED may also result from the fact that the ED does not state explicitly that it leaves the contents and characteristics of the MD&A largely unchanged. Ms. Johnson is concerned that this perception could make the preparation process more labor-intensive, at least in the near term, as preparers transition to a new standard and together with their auditors interpret new guidance.*

A51. ... Ms. Johnson believes that the MD&A project has been worthwhile. It has confirmed that the contents and characteristics of the MD&A as specified in SFFAS 15 remain appropriate more than 20 years after it was written. If, however, the Board concludes that changes to MD&A standards are necessary, Ms. Johnson suggests that such changes be made with minimal amendments to SFFAS 15, paragraphs 1-4 and 7, rather than rescinding and replacing SFFAS 15 in its entirety.

The Board's position is that the MD&A proposal should rescind and replace SFFAS 15 due to the improvements it offers—as noted above in I. *MD&A Reporting Improvements*. Improvements include

- encouraging flexibility in reporting MD&A content, despite a reporting entity's size, through broad principle-based standards;
- linking costs to performance results to help provide a more complete picture of the reporting entity's operating and financial performance;
- reporting the **causes** behind significant changes and trends in financial position and condition; and
- using principle-based guidance to describe the characteristics on "how" management should present a balanced, integrated, concise, and understandable MD&A.

The Board spent a considerable amount of time deliberating the option to amend SFFAS 15 as opposed to the option to rescind and replace SFFAS 15. The Board believes that rescission and replacement is the better option given the proposal provides a broad principle-based approach through a comprehensive set of standards. The rescind and replace option merges and updates the relevant content from SFFAC 3 and SFFAS 15, while maintaining its consistency with SFFAC 1, *Objectives of Federal Financial Reporting* -- budgetary integrity, operating performance, stewardship, and systems and controls.

III. REDUCING PREPARER'S BURDEN LONG-TERM

A44. In this regard, Ms. Johnson notes that even though the ED is not changing the MD&A requirements extensively, it could be more burdensome for preparers than SFFAS 15 in the long term. This is because, in her opinion, the ED contains more prescriptive requirements than SFFAS 15 (see ED paragraphs 12 and 13) and because the ED includes the four characteristics of the MD&A (in paragraphs 8 through 11) as discrete standards. Ms. Johnson believes that these changes will lengthen, rather than shorten, MD&A checklists used by preparers and auditors.

The Board's position is that the proposal will help preparers, in the long-term, to experience less burden preparing their MD&As. The following are examples of how this proposal will reduce preparer burden in the long-term:

1. The proposal does not include the MD&A sections, as required in SFFAS 15, which in turn will reduce burden by eliminating the need for duplicating information across multiple sections.
2. The proposal does not include references to GPRA-MA content, which will reduce the need for a reporting entity to duplicate information and manage multiple performance reports (budgetary and financial) with different reporting times.
3. The proposal encourages flexibility¹² for each reporting entity—despite size or complexity. This will reduce burden by allowing management to determine how much content to include, for example:

Paragraph A20b: 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 need to include organizational tools, such as headers, sub-headers, bullet-points, or crosswalks to financial reports; and visual aids, such as charts, tables, or graphs to help explain quantitative information.

Paragraph A22: The Board's intent is for MD&A to provide a brief description of the reporting entity's organization and mission **to explain** key organizational components.

¹² Staff believes SFFAS 15 is not flexible, given the prescriptive requirements directing reporting entities—despite size or complexity—on what MD&A should include. For example, the required sections are prescriptive and do not provide flexibility.

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

Paragraph A35: The Board intends for this proposal to provide flexibility as to how much content management wants to include in the MD&A despite a reporting entity's size or consolidation status for the *Federal Financial Report of the United States Government*.

Paragraph A36: Another cause for dense information in the MD&A is the titles of the required sections in SFFAS 15, paragraph 2. For example,

- a. The term "structure" in the title, "mission and organizational structure" has led agencies to include organizational charts and other information not related to financial position and condition. The proposed standards do not include the term "structure" to encourage flexibility in providing information about key organizational components as related to the reporting entities financial position, condition, and key performance results.

A46. Ms. Johnson would like to ask respondents to address the question of whether and how the ED will affect reporting burden.

Staff recommends the Board not include Ms. Johnson's suggested question because Q2 of *Questions for Respondents* already addresses the question of whether the "proposed standards will reduce preparer cost and burden over the long-term".

The Board believes this proposal will reduce preparer costs and burden over the long-term, as was evident from the MD&A pilot results. Staff conducted the pilot from January through March 2021. Seventeen pilot agencies created sample MD&As based on published FY2020 financial statements using only the MD&A objectives and framework. As a result, pilot agencies were able to streamline their MD&A between 50 - 80 percent. For example, USDA reduced their MD&A from 77 to 12 pages (84%); and FTC reduced their MD&A from 46 to 13 pages (70%). The Board believes these results are a good indicator of how a reporting entity's burden can be reduced over the long-term by applying broad principle-based guidance.

Staff does not recommend including Ms. Johnson's question because Q2 already provides respondents the opportunity to address whether and how preparer burden and cost could be affected by the proposal.

Question #1 for the Board:

Do members agree with staff's recommendation not to include Ms. Johnson's suggested reporting burden question.

IV. BALANCED, CONCISE, INTEGRATED, AND UNDERSTANDABLE MD&A

A47. Third, Ms. Johnson believes that current MD&As are generally comprehensive and understandable and does not believe that any duplicative or unclear text in MD&As is the result of SFFAS 15 or the fact that SFFAC 3 is not authoritative guidance. Rather, she believes that any duplicative or unclear MD&A text results from limited staff resources. Consequently, Ms. Johnson believes that amending or rescinding SFFAS 15 will not address any concerns with clarity or redundancy of MD&As.

A48. To the extent that MD&As could benefit from streamlining or editing, Ms. Johnson believes that, in the absence of additional resources being provided to agencies, the solution may require additional staff training (rather than amendments to SFFAS 15). The pilot conducted in the development of the ED resulted in improved MD&As largely because of FASAB staff guidance to agencies and because of the thorough and careful work of agency staff participating in the pilot.

The Board's position is that the proposal will provide content that is balanced, concise, integrated, and understandable, rather than duplicative and dense information in MD&A. Many agencies were concerned about including duplicative reporting within MD&A and interested in participating in the pilot. Staff used the below marketing language to recruit pilot agencies:

Is your MD&A long, burdensome, and/or duplicative? Are you copying and pasting information from other reports that does not match up with the timing of the financial report? If you answered yes to any of these questions, please consider joining the FASAB MD&A pilot.

Staff recruited fourteen of the seventeen pilot agencies with this FASAB listserv call.

The other three agencies participating in the pilot were small agencies recruited by staff from the Small Agency Audit Pilot Working Group hosted by Fiscal Service.

At the conclusion of the pilot, one of the comments staff received from a pilot agency was:

This approach is refreshing and on point for the Agency Financial Report (AFR). The MD&A currently pulls attention AWAY from the financial statements and note disclosures by muddying the waters with too much other program and miscellaneous information. The changes will allow us to frame the agencies mission in the context of the financial statements and adds value to financial statement presentation rather than detracting from it.

V. FLEXIBLE MD&A REPORTING

A49. *Fourth, Ms. Johnson notes that, like SFFAS 15, the ED imposes the same requirements on all entities regardless of entity size. Requiring the MD&A of only CFO Act entities or entities that are significant at the Government-wide level could reduce reporting burden for smaller and component entities. Those smaller or component entities that would like to prepare an MD&A could do so at management's discretion. In this regard, Ms. Johnson believes that the ED misses an opportunity to explore "tiered" reporting in the Federal environment (i.e., different reporting requirements for entities of different sizes).*

The Board's position is that this proposal offers flexibility on how much content a reporting entity can include in their MD&A, despite size or consolidation significance for the *Federal Financial Report of the United States Government*. The Board believes flexibility supports the reduction of reporting burden.

To test the Board's objective to provide flexibility, staff recruited three small agencies for the pilot from the *Small Agency Audit Pilot Working Group* hosted by Fiscal Service. Staff did not receive any negative feedback from these smaller pilot agencies about reporting burdens associated with preparing an MD&A using only the MD&A objectives and framework. In fact, they were more concerned about producing an MD&A that focused on transparency and providing users with comprehensive content about the entity's missions, accomplishments, as related to their financial position.

Pilot feedback confirmed the Board's objective to propose broad principle-based standards that encouraged flexibility for all reporting entities, despite size or consolidation significance for the *Federal Financial Report of the United States Government*.

Please see examples above in III. *Reducing preparer's burden long-term*, for how the Board is encouraging flexibility.

A50. *Ms. Johnson would like to ask respondents to address the question of whether and, if so, why they would support tiered reporting for: (1) the non-CFO*

Act agencies that are significant at the Government-wide level, (2) entities that are not significant at the Government-wide level, and (3) component entities.

The Board did not specifically address the issue of “tiered reporting” as part of the MD&A project.

Staff recommends the Board not include Ms. Johnson’s suggested question on “tiered reporting.” Staff believes the topic of “tiered reporting” would require a more comprehensive discussion and separate project by the Board not solely related to MD&A.

Question #2 for the Board:

Do members agree with staff’s recommendation not to include Ms. Johnson’s suggested question on tiered reporting?

VI. ADDITIONAL QUESTION FOR RESPONDENTS

Staff added the following question for respondents to address the alternative view:

Q5. The Board proposes to rescind and replace SFFAS 15. The Board believes that the MD&A proposal offers improvements over the standards in SFFAS 15. The improvements include reducing preparer burden over the long-term; adopting broad principle-based guidance to assist agencies in presenting a balanced, concise, integrated and understandable MD&A; and allowing flexible reporting of the amount of MD&A content despite a reporting entity’s size or consolidation status in the *Federal Financial Report of the United States Government*.

One member has an alternative view to this proposal. The member’s alternative view asserts the following.

- The MD&A requirements between the proposal and SFFAS 15 are neither extensive nor significant, however over the long-term; the proposal may be more burdensome for preparers than SFFAS 15.
- The rescinding and replacing of SFFAS 15 will not address any concerns with clarity or redundancy of MD&As and could imply the requirements are being changed extensively.

- The concept of an integrated MD&A is integral to and implicit in the “concise” and “clear” requirements and are already included in SFFAS 15.
- The MD&A proposal should not impose the same requirements on all entities regardless of the entity’s size.

Please refer to paragraphs A44 – A54 to review the alternative as presented.

Do you agree, partially agree, or disagree with the alternative view? Please provide the rationale for your answer.

Question #3 for the Board:

Do members agree with the question staff has added to address the alternative view? Why or why not?

Staff has updated the basis for conclusions to include content about

1. how and what agencies were recruited for the pilot, and related feedback (paragraphs A9 – A11);
2. how and why the Board developed the proposed improvements for MD&A standards (paragraph A14); and
3. why the Board chose the option to rescind and replace SFFAS 15 (paragraphs A29-A40).

Question #4 for the Board:

Do members believe the updated basis for conclusions adequately supports the Board’s position? Why or why not?

MD&A Alternative View

TOPIC D - MD&A

June 2023

Attachment 2

Ms. Carol Johnson MD&A Alternative View

A XX. Ms. Johnson believes that the MD&A project has been worthwhile because it has allowed the Board to reexamine the contents and characteristics of the MD&A and it has informed OMB's updates to its MD&A guidance in Circular A-136, *Financial Reporting Requirements*. Ms. Johnson agrees with the ED's conclusions regarding the contents and characteristics of the MD&A, but has four general concerns with the ED.

First, Ms. Johnson believes that there are no significant differences between the required contents and characteristics of the MD&A under the ED and under SFFAS 15. Both require information about: (1) the entity's mission and organizational structure; (2) entity-level performance; (3) financial position and condition, including significant changes to financial position and/or condition and relevant prior-period, current-period, and forward-looking information; (4) financial and performance risks; and (5) an assessment of the entity's financial management systems, controls, and legal compliance. Both require the MD&A to be balanced, concise, and clear or understandable.¹

Unlike SFFAS 15, the ED states explicitly that the MD&A should be "integrated."² Ms. Johnson agrees with this requirement and notes that OMB amended A-136 in FY 2018 to stress that the MD&A should be integrated. In addition, Ms. Johnson believes that the concept of an integrated MD&A is integral to and implicit in the "concise" and "clear" requirements already included in SFFAS 15. Consequently, the explicit reference to integrated in the ED might not be critical to ensuring that MD&As are integrated. Also, Ms. Johnson notes that in FY 2021, OMB further amended A-136 to promote integrated MD&As by allowing management to choose section titles, which could, but do not need to, correspond to each type of information required by SFFAS 15.³

Second, Ms. Johnson is concerned that rescinding SFFAS 15 and issuing a new MD&A standard, as proposed in the ED, might imply that the MD&A requirements are being changed

¹ SFFAS 15, paragraph 1, states that the MD&A needs to be "clear," "concise," and "balanced;" paragraph 5 states that the "MD&A must be concise if it is to be useful;" and paragraph 6 states that the "MD&A should deal with the vital few matters."

² See paragraph 10 of the ED.

³ As noted in A-136, Section II.2.1, one section title, "Analysis of Systems, Controls, and Legal Compliance," is required because of a requirement in OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

extensively, which, as noted above, she does not believe is the case. Ms. Johnson believes that this perception of significant changes resulting from the ED may also result from the fact that the ED does not state explicitly that it leaves the contents and characteristics of the MD&A largely unchanged. Ms. Johnson is concerned that this perception could make the preparation process more labor-intensive, at least in the near term, as preparers transition to a new standard and together with their auditors interpret new guidance.

In this regard, Ms. Johnson notes that even though the ED is not changing the MD&A requirements extensively, it could be more burdensome for preparers than SFFAS 15 in the long term. This is because, in her opinion, the ED contains more prescriptive requirements than SFFAS 15 (see ED paragraphs 12 and 13) and because the ED includes the four characteristics of the MD&A (in paragraphs 8 through 11) as discrete standards. Ms. Johnson believes that these changes will lengthen, rather than shorten, MD&A checklists used by preparers and auditors.

Third, Ms. Johnson believes that current MD&As are generally comprehensive and understandable and does not believe that any duplicative or unclear text⁴ in MD&As is the result of SFFAS 15 or the fact that SFFAC 3 is not authoritative guidance. Rather, she believes that any duplicative or unclear MD&A text results from limited staff resources. Consequently, Ms. Johnson believes that amending or rescinding SFFAS 15 will not address any concerns with clarity or redundancy of MD&As.

To the extent that MD&As could benefit from streamlining or editing, Ms. Johnson believes that, in the absence of additional resources being provided to agencies, the solution may require additional staff training (rather than amendments to SFFAS 15). The pilot conducted in the development of the ED resulted in improved MD&As largely because of FASAB staff guidance to agencies and because of the thorough and careful work of agency staff participating in the pilot.

Fourth, Ms. Johnson notes that, like SFFAS 15, the ED imposes the same requirements on all entities regardless of entity size. Requiring the MD&A of only CFO Act entities or entities that are significant at the Government-wide level could reduce reporting burden for smaller and component entities. Those smaller or component entities that would like to prepare an MD&A could do so at management's discretion. In this regard, Ms. Johnson believes that the ED misses an opportunity to explore "tiered" reporting in the Federal environment (i.e., different reporting requirements for entities of different sizes).

As noted in paragraph AXX Ms. Johnson believes that the MD&A project has been worthwhile. It has confirmed that the contents and characteristics of the MD&A as specified in SFFAS 15 remain appropriate more than 20 years after it was written. If, however, the Board concludes that changes to MD&A standards are necessary, Ms. Johnson suggests that such changes be made

⁴ The third and fourth paragraph of the Executive Summary and paragraph A3 of the ED suggest that MD&As are redundant and unclear.

with minimal amendments to SFFAS 15, paragraphs 1-4 and 7, rather than rescinding and replacing SFFAS 15 in its entirety.

CLEAN VERSION with Alternative View & Related Updates

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

RESCINDING AND REPLACING SFFAS 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Federal Financial Accounting Standards

Pre-Ballot Exposure Draft

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

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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ISSUE DATE

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

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

Responses are requested by **DUE DATE**.

All comments received by 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

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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable¹ laws and regulations.

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

The Board first published conceptual guidance and standards for management to prepare MD&A content in 1999, in Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion, and Analysis*, and in Statement of Federal Financial Accountant Standards (SFFAS) 15, *Management's Discussion and Analysis*.

The Board intended management to refer to both SFFAC 3 and SFFAS 15 to prepare MD&A because together they contained complete guidance pertaining to both form (how to report information) and content (what information to report). However, reporting entities predominantly referred only to SFFAS 15 because concepts (SFFAC 3) are not authoritative.² This resulted in segregating information into sections that often resulted in duplicating content throughout MD&A, and was, therefore, difficult for users to follow and understand.

The Board proposes these standards to provide a principles-based approach that merges and updates relevant content from SFFAC 3 and SFFAS 15 and is consistent with FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls. This proposal will provide more flexibility for reporting MD&A, will reduce preparer burden and redundancy, and will enhance transparency to present an MD&A that is balanced, integrated, concise, and understandable.

¹ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

² See basis for conclusions, paragraphs A1-A4, for complete history.

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QUESTIONS FOR RESPONDENTS

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

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

The questions in this section are available to answer in an on-line survey at [add link](#). Specific instructions for providing your responses to this exposure draft are available once you enter the survey. If you have any issues with the survey, please contact us at fasab@fasab.gov or (202) 512-7350.

All responses are requested by [\[insert date\]](#).

Q1. The Board proposes 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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. [Please refer to paragraphs 8-13.](#)

Do you agree, partially 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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations? Please provide the rationale for your answer.

Q2. The Board believes this proposal will reduce preparer costs and burden over the long-term. [Please refer to paragraphs A31-A34.](#)

Do you agree, partially agree, or disagree that the proposed standards will reduce preparer cost and burden over the long-term? Please provide the rationale for your answer.

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 you agree, partially agree, or disagree that the proposed standards in**
4 **paragraphs 8-11 provide adequate guidance on how management should**
5 **present information in MD&A? Please provide the rationale for your**
6 **answer.**

7
8 Q4. The Board explains **what** information management should include in MD&A in
9 *Information Discussed and Analyzed in MD&A*. Please refer to paragraphs 12-13.

10 **Do you agree, partially agree, or disagree that the proposed standards in**
11 **paragraphs 12-13 provide adequate guidance on what information**
12 **management should include in MD&A? Please provide the rationale for**
13 **your answer.**

14
15 Q5. The Board proposes to rescind and replace SFFAS 15. The Board believes that
16 the MD&A proposal offers improvements over the standards in SFFAS 15. The
17 improvements include reducing preparer burden over the long-term; adopting
18 broad principle-based guidance to assist agencies in presenting a balanced,
19 concise, integrated and understandable MD&A; and allowing flexible reporting of
20 the amount of MD&A content despite a reporting entity's size or consolidation
21 status in the *Federal Financial Report of the United States Government*.

22
23 One member has an **alternative view** to this proposal. The member's alternative
24 view asserts the following.

- 25
26 • The MD&A requirements between the proposal and SFFAS 15 are neither
27 extensive nor significant, however over the long-term; the proposal may be
28 more burdensome for preparers than SFFAS 15.
- 29
30 • The rescinding and replacing of SFFAS 15 will not address any concerns with
31 clarity or redundancy of MD&As and could imply the requirements are being
32 changed extensively.
- 33
34 • The concept of an integrated MD&A is integral to and implicit in the "concise"
35 and "clear" requirements and are already included in SFFAS 15.
- 36
37 • The MD&A proposal should not impose the same requirements on all entities
38 regardless of the entity's size.

1 Please refer to paragraphs A44 – A54 to review the alternative view as
2 presented.

3 **Do you agree, partially agree, or disagree with the alternative view? Please**
4 **provide the rationale for your answer.**

5
6 **Q6. Are there any other aspects of this proposal that you wish to provide**
7 **comments on? Please provide the rationale for your answer.**

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. 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).³

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement proposes to rescind SFFAS 15, Management's Discussion and Analysis.
5. This Statement proposes to replace SFFAS 15 with the proposed Management's Discussion and Analysis (MD&A) standards in this Statement.⁴

³ See SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* paragraph 73 for concepts about required supplemental information (RSI).

⁴ 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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. This proposed statement presents guidance in two categories: 1) *Presenting Information in MD&A*, and 2) *Information Discussed and Analyzed in MD&A*.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. *Information Discussed and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

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 that is sufficient to meet the needs of its users by
- a. emphasizing the vital few matters related to the information required in paragraphs 12 and 13;
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR, and indicating the availability of additional information, such as from other audited documents, or unaudited federal government documents;⁵ and
 - c. limiting the use of boilerplate language by only presenting information that is relevant to the reporting entity's current financial report.

⁵ 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 and analysis.

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 nor an extensive financial or accounting background.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

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

a. the organization and mission;

b. the causes of significant changes and trends in

i. financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources; and

ii. financial condition as explained by

1. business-type activity, social insurance, long-term fiscal projections; and

2. other relevant required supplementary information⁶;

c. the key performance⁷ results⁸, and the associated costs;

d. the significant opportunities⁹ identified by management to enhance performance results, plans to leverage such opportunities, and the

⁶ GAAP includes reporting of required supplementary information for items such as, heritage assets or federal oil and gas resources yet may change periodically.

⁷ 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.

⁸ 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.

⁹ "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.

potential impact on financial and budgetary results of carrying out those plans¹⁰;

- e. the significant risks¹¹ 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.

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

- a. the effectiveness of the reporting entity's internal controls and financial management systems, and
- b. the reporting entity's compliance with applicable laws¹², 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 its plans 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.

¹⁰ Plans are actions the reporting entity expects to execute during the current reporting period (short-term) and into the future (long-term).

¹¹ "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.

¹² 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 content¹³ 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 Discussion and Analysis*, which was merely an outline of SFFAC 3 standards-like 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 hierarchy¹⁴, agencies relied primarily on SFFAS 15 to prepare MD&As.
- A3. **During 2017 and 2018**, staff conducted an on-line survey and roundtables for the *Risk Reporting and Reporting Model-Phase I: MD&A and*

¹³ 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 contain standards-like language such as: *MD&A should address; MD&A should inform, and MD&A should concisely explain...*

1 *Stewardship Investments Improvements* projects¹⁵. Roundtable feedback
2 informed the Board that financial statement users (users) found federal entity
3 MD&As to be dense, duplicative, and complex. Roundtable participants
4 wanted to understand the financial performance in the context of the
5 reporting entity's financial position and condition. The MD&A included dense
6 statistical information repeated from the GPRA-MA¹⁶ reporting that did not
7 provide the financial information 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
14 a. consolidate standards-like content from SFFAC 3 and standards from
15 SFFAS 15 into one SFFAS for preparing the MD&A;
16
17 b. reduce preparer burden by streamlining the MD&A;
18
19 c. require information about a reporting entity's financial position and
20 condition for a financial focus instead of a statistical focus based on
21 GPRA-MA reporting; and
22
23 d. update guidance to discuss and analyze risk plans and mitigation to
24 explain how the reporting entity will respond to opportunities and
25 uncertainties.
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 believes management should report in MD&A.
32

33 A6. The Board identified 11 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*.

¹⁵ 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.

¹⁶ 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: *MD&A*
2 *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 recruited the agency pilot participants using the following FASAB
8 listserv call:

9 *Is your MD&A long, burdensome, and/or duplicative? Are you*
10 *copying and pasting information from other reports that does not*
11 *match up with the timing of the financial report? If you answered yes*
12 *to any of these questions, please consider joining the FASAB MD&A*
13 *pilot.*

14 A10. As a result, staff received requests from 14 agencies to join the MD&A pilot
15 The pilot included:

- 16 a. 11 Chief Financial Officer (CFO) Act Consolidation Agencies¹⁷ (65%),
17 one Significant Consolidation Agency (5%); and IRS, an agency within
18 Treasury, and Defense Health Program, an agency within DOD (12%)
19 participated in the pilot.
- 20 b. The other three agencies participating in the pilot were small agencies
21 recruited by staff from the Small Agency Audit Pilot Working Group
22 hosted by Fiscal Service: .Federal Trade Commission (FTC), National
23 Labor Relations Board, and Peace Corps (18%). Staff recruited these
24 small agencies from the Small Agency Audit Pilot Working Group (hosted
25 by Fiscal Service) to help determine how to streamline MD&A for small
26 agencies.

27 A11. Staff conducted the pilot from January through March 2021.

- 28 a. The 17 pilot agencies created sample MD&As based on FY2020 financial
29 statements, using only the MD&A objectives and framework¹⁸. As a
30 result, the pilot agencies were able to streamline MD&A between 50 - 80
31 percent. For example, USDA's reduced their MD&A from 77 to 12 pages
32 (84%) and FTC reduced their MD&A from 46 to 13 pages (70%).

33 The Board believes the pilot results were a good indicator of how a
34 reporting entity's burden can be reduced in over the long-term by
35 applying broad principle-based guidance.

¹⁷ See Appendix A: Reporting Entities, Federal Financial Report of the United States Government

¹⁸ OMB A-136 and CEAR requirements were **not** included in the MD&A pilot to allow agencies to test if the MD&A could be streamlined with only the draft MD&A objectives and framework.

i. At the conclusion of the pilot, one of the comments staff received from a pilot agency was: *this approach is refreshing and on point for the Agency Financial Report (AFR). The MD&A currently pulls attention AWAY from the financial statements and note disclosures by muddying the waters with too much other program and miscellaneous information. The changes will allow us to frame the agencies mission in the context of the financial statements and adds value to financial statement presentation rather than detracting from it.*

ii. Staff did not receive any negative feedback from the smaller pilot agencies about reporting burdens associated with preparing an MD&A. In fact, they were more concerned about producing an MD&A that focused on transparency and providing users with comprehensive content about the entity's missions, accomplishments, as related to their financial position.

b. Sixteen users reviewed four sample MD&As to determine if the sample MD&As were streamlined and easy to read and understand.

A12. In April 2021 Agency pilots and user reviewers recommended that a streamlined MD&A could be accomplished by

- a. providing a comprehensive connection between performance, non-financial and financial information, and systems information while avoiding a silo effect of putting information in separate sections;
- b. focusing on key drivers (e.g. COVID-19) that impacted performance goals, significant changes in financial statement lines, and management's decisions during the reporting period;
- c. providing concise and tangible examples about the magnitude of risks and current and planned actions to address them;
- d. including high-level performance goals that support the current leadership agenda instead of low-level metrics;
- e. including well labeled trend graphs that integrate performance, financial, and budgetary resource information, and written summaries; and
- f. including more hyperlinks to detailed performance data and other important documents.

A13. The Board determined the MD&A pilot was successful and that the objectives and MD&A draft vision framework were sufficient for developing the MD&A proposed standards.

PROPOSED MD&A STANDARDS

A14. The Board developed the proposed broad principle-based MD&A standards as a result of these four years of staff work and Board deliberations. While

both SFFAS 15 and the proposal require similar information, the following are examples of the Board's intended improvements for MD&A:

- a. This proposal does not include the MD&A sections, as required in SFFAS 15, therefore, eliminating duplicating information, and reducing burden.
- b. This proposal does not include references to GPRA-MA content to remove the agency burden of duplicating information and managing two different reports for their budget and APR reporting. Instead, the Board intends for costs to be linked with performance results to provide a more complete picture of a reporting entity's operating and financial performance.
- c. The proposal requires information about the underlying causes of *significant changes and trends in financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources*¹⁹; whereas SFFAS 15 only requires *forward-looking information regarding the possible future effects of the most important existing, currently-known... trends*²⁰.
- d. This proposal provides broad principle-based guidance for **how** to present a **balanced** (paragraphs 8, A17), **concise** (paragraphs 9, A18), **integrated** (paragraphs 10, A19), and **understandable** (paragraphs 11, A20) MD&A. These four characteristics are an improvement over SFFAS 15 because "how" requirements are scattered and disconnected throughout SFFAS 15, for example:
 1. paragraph 1 includes, *MD&A should provide a clear and concise description of ...*;
 2. while paragraph 5 says, *Because MD&A must be concise if it is to be useful; and*
 3. paragraph 6 mentions, *MD&A should deal with the "vital few" matters.*

A15. The Board identified two categories to highlight these improvements and facilitate preparation of MD&A: 1) *Presenting Information in MD&A*, and 2) *Information Discussed and Analyzed in MD&A*.

¹⁹ ED, paragraph 12.b

²⁰ SFFAS 15, paragraph 3

PRESENTING INFORMATION IN MD&A

- A16. The Board intends for the broad principle-based standards in *Presenting Information in MD&A* to guide management in **how** to present a balanced, integrated, concise, and understandable MD&A—the four characteristics of an MD&A—.
- A17. The Board believes that a **balanced** MD&A explains 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 also includes trend information over multiple prior reporting periods to help users understand 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.
- A18. The Board believes that to achieve a **concise** MD&A management emphasizes the vital few matters for information required in paragraphs 12 and 13, summarizes detailed information found outside of MD&A with references to that information, and limits boilerplate language and only presenting information current to the reporting entity.
- a. For example:
 - i. MD&A summarizes information necessary to understand the reason(s) for significant changes in net cost.
 - ii. MD&A provides a brief discussion about the reporting entity's operating performance with reference to the additional detailed information found within the GPFFR or in another Federal government document.
- A19. The Board believes an **integrated** MD&A incorporates quantitative, qualitative, financial, and non-financial information across various elements. For example, MD&A may include the interrelationship of budgetary, financial,

and operating performance results for "major" programs, as presented in the reporting entity's Statement of Net Cost.

A20. The Board's intent is that an MD&A is **understandable** to any user who may not have an extensive knowledge of U.S. Government operations or an extensive financial or accounting background.

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 need to include organizational tools, such as headers, sub-headers, bullet-points, or crosswalks to financial reports; and visual aids, such as charts, tables, or graphs to help explain quantitative information.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

A21. The Board intends for the broad principle-based standards in *Information Discussed and Analyzed* in MD&A to guide management in **what** information should be included 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.

A22. The Board's intent is for MD&A to provide a brief description of the reporting entity's organization and mission **to explain** key organizational components.

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

b. For example, a large reporting entity could briefly summarize the reporting entity as a whole as well as each significant component/agency entity, while a small reporting entity could focus on the entity as a whole.

1 A23. The Board's intent is for MD&A to explain what caused significant changes in
2 a reporting entity's **financial position and condition**.

3 a. Financial position is typically the account status of an entity's assets,
4 liabilities, and equity positions as reflected on its financial statement.
5 However, for the MD&A, the Board believes that users will better
6 understand the reporting entity's financial position through
7 management's explanations about significant changes in the
8 composition or the balances of assets, liabilities, net position; as well as
9 costs, revenues, budgetary resources, and financing sources. This
10 would better address users' interest in the use of the reporting entity's
11 budget and other revenue sources to support the accomplishment of its
12 mission(s).

13
14 b. Appropriate examples include language such as:

15
16 i. "Support of pandemic-related relief efforts led to a significant
17 decrease of stockpile materials of vaccines by \$\$\$" would be
18 consistent with the Board's intent, where as "inventory decreased
19 because of a decrease in stockpile materials" would not.

20
21 ii. "Disaster recovery efforts from natural disasters in X area of the
22 country during 202X significantly increased the cost of X by \$\$\$"
23 would be consistent with the Board's intent, where as "an unexpected
24 increase in costs deteriorated the financial position" would not.

25
26 c. Financial condition is broader and more forward-looking than financial
27 position.²¹ The Board believes that users will best understand the
28 financial condition of reporting entities through management's
29 explanation about significant changes in business-type activity, social
30 insurance, long-term projections, and other relevant requirement
31 supplementary information.

32
33
34 A24. The Board believes that MD&A explains what **performance results** are key
35 to the reporting entity and the associated cost.

36 a. MD&A focuses on what it costs the agency and its key organizational
37 components to pursue or to accomplish key performance results, as well
38 as whether the accomplishment of key performance results resulted in
39 cost savings for the agency.

²¹ SFFAC 1, paragraph 180.

- b. For example, MD&A explains how key performance accomplishments and challenges affected budgetary or financing resources during the reporting period.
- c. However, the reporting of consolidated governmentwide key performance results is not required in the MD&A of the Financial Report of the U.S. Government based 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.

A25. The Board's intent is for MD&A to explain significant **opportunities** the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to implement to leverage opportunities and what are the effects on key performance or financial results?

A26. The Board's intent is for MD&A to explain significant **risks** the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to implement to address a significant risk that may have a negative effect on key performance or financial results?

A27. Systems, Internal Controls, and Compliance

- a. The Board believes that MD&A provides 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.
- 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.

A28. Stewardship Investments

- a. On June 11, 1996, the Board published SFFAS 8, *Supplementary Stewardship Reporting* that included a requirement to report "required supplemental stewardship information" (RSSI).
- b. On September 27, 2019, the Board published SFFAS 57, *Omnibus Amendments 2019*, which rescinded the remaining RSSI requirements of SFFAS 8²², eliminating the requirement for reporting RSSI.
- c. In the SFFAS 57 basis for conclusions, paragraphs A7 – A10, the Board discussed the comments from the 11 respondents. The majority of those responders agreed with eliminating RSSI because users did not rely upon that information. The minority of respondents who wanted to continue including RSSI in a separate category believed that distinguishing stewardship information informed users on the extent of investments that provided long-term benefits for the nation.
- d. SFFAS 57 basis for conclusions, paragraph A11²³ indicated that the Board would also consider whether to report stewardship investments in MD&A.
- e. This project considered the SFFAS 57 responses by reviewing agency financial reports. The Board found that practice indicates that most reporting entities have concluded that information about stewardship investment is not significant enough to warrant inclusion in the MD&A. Therefore, the Board chose not to add the requirement that reporting entities should include stewardship investments in MD&A.
- f. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management believes this information is relevant or significant to explaining the reporting entity's financial position or condition.

RESCISSION AND REPLACEMENT OF SFFAS 15

A29. The Board is proposing to rescind the MD&A standards in SFFAS 15 and replace it with this proposal.

A30. The Board spent a considerable amount of time deliberating the option to amend SFFAS 15 as opposed to the option to rescind and replace SFFAS 15. The Board believes that rescission and replacement is the better option given the proposal provides a broad comprehensive principles-based approach through a comprehensive set of standards. The rescind and replace option merges and updates the relevant content from SFFAC 3 and SFFAS 15,

²² SFFAS 57, paragraph 2

²³ SFFAS 57, basis for conclusions, paragraph A11.

1 while maintaining its consistency with SFFAC 1, Objectives of Federal
2 Financial Reporting for -- budgetary integrity, operating performance,
3 stewardship, and systems and controls.

4 A31. The Board believes this proposal also addresses the concerns collected
5 during 2017-2018 through an on-line survey and round-tables. These
6 concerns were the reason for the MD&A project, which began in 2019.

7 A32. The 2017-2018 outreach activities revealed that MD&A was very dense with
8 duplicative information making it very hard for a user to understand the
9 financial position and condition of the agency. One reason noted as a cause
10 for the density and duplication, was the section requirements and titles stated
11 in SFFAS 15, paragraph 2.

12 *MD&A should contain sections that address the entity's mission and*
13 *organizational structure; performance goals, objectives, and results;*
14 *financial statements; and systems, controls, and legal compliance.*

15 A33. As a result, agencies repeated the same information throughout the MD&A in
16 the different sections to make sure they provided enough information in each
17 section. Section requirements created duplicative and dense information in the
18 MD&A for a user to decipher.

19 A34. The proposal does not include the MD&A sections, as required in SFFAS 15,
20 which in turn will reduce burden by eliminating the need for reporting entities to
21 duplicate information across multiple sections.

22 A35. The Board intends for this proposal to provide flexibility as to how much
23 content management wants to include in the MD&A despite a reporting entity's
24 size or consolidation status for the *Federal Financial Report of the United*
25 *States Government*.

26 A36. Another cause for dense information in the MD&A is the titles of the required
27 sections in SFFAS 15, paragraph 2. For example,

28
29 a. The term "structure" in the title, "mission and organizational structure" has
30 led agencies to include organizational charts and other information not
31 related to financial position and condition. The proposed standards do not
32 include the term "structure" to encourage flexibility in providing information
33 about key organizational components as related to the reporting entities
34 financial position, condition, and key performance results.

35
36 b. The title "performance goals, objectives, and results" is GPRA-MA
37 terminology. As a result, agencies have reported extensive performance
38 information as required by GPRA-MA using percentages achieved instead
39 of how performance relates to what the reporting entity achieved in
40 relation to budget and financial resources used.

1
2 A37. The Board believes these proposed broad principle-based standards will
3 guide reporting entities to produce an MD&A that focuses on what it costs the
4 agency and its key organizational components to pursue or to accomplish
5 key performance results, as well as whether these accomplishments resulted
6 in cost savings for the agency.

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12 A38. The Board believes that not including references to GPRA-MA content will
13 reduce duplicating information because the reporting entity will not need to
14 produce and manage multiple performance reports (budgetary and financial)
15 that have different reporting times.

16 A39. The Board acknowledges the updates OMB has made to improve MD&A
17 reporting in A-136, *Financial Reporting Requirements*. However, FASAB
18 establishes generally accepted accounting principles (GAAP) for the federal
19 government through its pronouncements. This proposal will be level A
20 guidance in the GAAP hierarchy.
21

22 A40. The Board believes rescinding and replacing SFFAS 15 provides broad
23 principle-based set of comprehensive standards to guide management in how
24 to present an MD&A that is balanced, integrated, concise, and understandable
25 about the reporting entity's organization and mission; financial position and
26 condition; operating performance, opportunities, and risks; and systems,
27 internal controls, and compliance with applicable laws and regulations.

28 A41. The Board believes that because this proposal has adapted all relevant
29 standards-like content from SFFAC 3. Therefore, *Omnibus Concepts*
30 *Amendments 202X* will amend MD&A concepts in SFFAC 2 and rescind
31 MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.
32

33 A42. The Board does not intend for this proposal to affect other statements that
34 require information in MD&A, such as, SFFAS 37, *Social Insurance:*
35 *Additional Requirements for Management's Discussion and Analysis and*
36 *Basic Financial Statements*. The Board believes including the SFFAS 37
37 MD&A requirements in this proposal would cause duplication of information
38 already required in MD&A.
39

ALTERNATIVE VIEW

A43. *Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a proposed standard. The alternative view discusses the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the individual member alone. However, the individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The material following was prepared by an individual member and is presented as an alternative view.*

A44. Ms. Johnson believes that the MD&A project has been worthwhile because it has allowed the Board to reexamine the contents and characteristics of the MD&A and it has informed OMB's updates to its MD&A guidance in Circular A-136, Financial Reporting Requirements. Ms. Johnson agrees with the ED's conclusions regarding the contents and characteristics of the MD&A, but has four general concerns with the ED.

A45. First, Ms. Johnson believes that there are no significant differences between the required contents and characteristics of the MD&A under the ED and under SFFAS 15. Both require information about: (1) the entity's mission and organizational structure; (2) entity-level performance; (3) financial position and condition, including significant changes to financial position and/or condition and relevant prior-period, current-period, and forward-looking information; (4) financial and performance risks; and (5) an assessment of the entity's financial management systems, controls, and legal compliance. Both require the MD&A to be balanced, concise, and clear or understandable.²⁴

A46. Unlike SFFAS 15, the ED states explicitly that the MD&A should be "integrated."²⁵ Ms. Johnson agrees with this requirement and notes that OMB amended A-136 in FY 2018 to stress that the MD&A should be integrated. In addition, Ms. Johnson believes that the concept of an integrated MD&A is integral to and implicit in the "concise" and "clear" requirements already included in SFFAS 15. Consequently, the explicit reference to integrated in

²⁴ SFFAS 15, paragraph 1, states that the MD&A needs to be "clear," "concise," and "balanced;" paragraph 5 states that the "MD&A must be concise if it is to be useful;" and paragraph 6 states that the "MD&A should deal with the vital few matters."

²⁵ See paragraph 10 of the ED.

1 the ED might not be critical to ensuring that MD&As are integrated. Also , Ms.
2 Johnson notes that in FY 2021, OMB further amended A-136 to promote
3 integrated MD&As by allowing management to choose section titles, which
4 could, but do not need to, correspond to each type of information required by
5 SFFAS 15.²⁶
6

7 A47. Second, Ms. Johnson is concerned that rescinding SFFAS 15 and issuing a
8 new MD&A standard, as proposed in the ED, might imply that the MD&A
9 requirements are being changed extensively, which, as noted above, she
10 does not believe is the case. Ms. Johnson believes that this perception of
11 significant changes resulting from the ED may also result from the fact that
12 the ED does not state explicitly that it leaves the contents and characteristics
13 of the MD&A largely unchanged. Ms. Johnson is concerned that this
14 perception could make the preparation process more labor-intensive, at least
15 in the near term, as preparers transition to a new standard and together with
16 their auditors interpret new guidance.
17

18 A48. In this regard, Ms. Johnson notes that even though the ED is not changing
19 the MD&A requirements extensively, it could be more burdensome for
20 preparers than SFFAS 15 in the long term. This is because, in her opinion,
21 the ED contains more prescriptive requirements than SFFAS 15 (see ED
22 paragraphs 12 and 13) and because the ED includes the four characteristics
23 of the MD&A (in paragraphs 8 through 11) as discrete standards. Ms.
24 Johnson believes that these changes will lengthen, rather than shorten,
25 MD&A checklists used by preparers and auditors.
26

27 A49. Ms. Johnson would like to ask respondents to address the question of
28 whether and how the ED will affect reporting burden.
29

30 A50. Third, Ms. Johnson believes that current MD&As are generally
31 comprehensive and understandable and does not believe that any duplicative
32 or unclear text in MD&As is the result of SFFAS 15 or the fact that SFFAC 3
33 is not authoritative guidance. Rather, she believes that any duplicative or
34 unclear MD&A text results from limited staff resources. Consequently, Ms.
35 Johnson believes that amending or rescinding SFFAS 15 will not address any
36 concerns with clarity or redundancy of MD&As.
37

38 A51. To the extent that MD&As could benefit from streamlining or editing, Ms.
39 Johnson believes that, in the absence of additional resources being provided
40 to agencies, the solution may require additional staff training (rather than

²⁶ As noted in A-136, Section II.2.1, one section title, "Analysis of Systems, Controls, and Legal Compliance," is required because of a requirement in OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

1 amendments to SFFAS 15). The pilot conducted in the development of the
2 ED resulted in improved MD&As largely because of FASAB staff guidance to
3 agencies and because of the thorough and careful work of agency staff
4 participating in the pilot.
5

6 A52. Fourth, Ms. Johnson notes that, like SFFAS 15, the ED imposes the same
7 requirements on all entities regardless of entity size. Requiring the MD&A of
8 only CFO Act entities or entities that are significant at the Government-wide
9 level could reduce reporting burden for smaller and component entities.
10 Those smaller or component entities that would like to prepare an MD&A
11 could do so at management's discretion. In this regard, Ms. Johnson believes
12 that the ED misses an opportunity to explore "tiered" reporting in the Federal
13 environment (i.e., different reporting requirements for entities of different
14 sizes).
15

16 A53. Ms. Johnson would like to ask respondents to address the question of
17 whether and, if so, why they would support tiered reporting for: (1) the non-
18 CFO Act agencies that are significant at the Government-wide level, (2)
19 entities that are not significant at the Government-wide level, and (3)
20 component entities.
21

22
23 A54. As noted in paragraph AXX Ms. Johnson believes that the MD&A project has
24 been worthwhile. It has confirmed that the contents and characteristics of the
25 MD&A as specified in SFFAS 15 remain appropriate more than 20 years after
26 it was written. If, however, the Board concludes that changes to MD&A
27 standards are necessary, Ms. Johnson suggests that such changes be made
28 with minimal amendments to SFFAS 15, paragraphs 1-4 and 7, rather than
29 rescinding and replacing SFFAS 15 in its entirety.
30

APPENDIX B: MD&A OBJECTIVES

The Board developed the proposed MD&A standards, by first identifying objectives for what it believes 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 |
|---|--|
| <p>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> <p>Background and Rationale</p> <p>Pg. 5, paragraph 11: Questions this objective should</p> | <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 financial statements.</p> <p>Pg. 14, paragraph 29: MD&A should explain</p> |

| Budget Integrity Reporting Objective Concepts from SFFAC 1 | Budget Integrity Reporting Objective Concepts from SFFAC 3 |
|---|---|
| <p>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>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> |

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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 GPRA-MA 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> <p>...Explanatory information helps report users understand reported indicators, assess the reporting entity's performance, and evaluate the significance of</p> |

| Operating Performance Reporting Objective Concepts from SFFAC 1 | Operating Performance Reporting Objective Concepts from SFFAC 3 |
|--|--|
| | <p>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 improved or deteriorated over the period.</p> <p>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, paragraph 11: Questions this objective should</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 the future is unpredictable and will be influenced</p> |

| Stewardship Reporting Objective Concepts from SFFAC 1 | Stewardship Reporting Objective Concepts from SFFAC 3 |
|---|---|
| <p>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>Pg. 31, paragraph 137: Assessing whether the government's financial position improved or deteriorated over the period is important not only</p> | <p>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 MD&A. A line-by- line analysis of the financial</p> |

| Stewardship Reporting Objective Concepts from SFFAC 1 | Stewardship Reporting Objective Concepts from SFFAC 3 |
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| <p>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>For example, reports intended to help meet this objective might address users' needs for information about investments in (or expenditures for) research</p> | <p>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>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> | |

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2 REPORTING SYSTEMS, CONTROLS, AND COMPLIANCE IN MD&A

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

6 10. MD&A should concisely describe the conditions of data, systems, and
7 controls that affect the ability to produce reliable financial information.

8 11. MD&A should include a summary discussion about ongoing and planned
9 actions to address non-compliance and control weaknesses that may be
10 causing material weaknesses. This includes references to other sections that
11 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, waste, and abuse; and performance measurement information is adequately supported.</p> <p><i>Pg. 5, paragraph 11: Questions this objective should</i></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 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> |

| Systems and Control Reporting Objective Concepts from SFFAC 1 | MD&A Concepts about Systems and Controls from SFFAC 3 |
|---|---|
| <p>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>Pg. 25, paragraph 103: 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>Pg. 33, paragraph 149: Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.</p> <p>Pg. 33, paragraph 150: 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>Pg. 10, paragraph 16: 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>Pg. 10, paragraph 17: 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>SFFAC 3, <i>Discussion and Analysis of Systems, Controls and Legal Compliance</i></p> <p>Pg. 17, paragraph 41: ... Where relevant, management should describe the methods used to limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as</p> |

| Systems and Control Reporting Objective Concepts from SFFAC 1 | MD&A Concepts about Systems and Controls from SFFAC 3 |
|--|---|
| | 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. |

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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 Discussion and Analysis |
| OMB | Office of Management and Budget |
| RSI | Required Supplemental Information |
| SFFAC | Statement of Federal Financial Accounting Concepts |
| SFFAS | Statement of Federal Financial Accounting Standards |
| U.S. | United States |

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May 26, 2023

Track Changes with Alternative View & Related Updates

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

RESCINDING AND REPLACING SFFAS 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Federal Financial Accounting Standards

Pre-Ballot Exposure Draft

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

Month day, year

Working Draft – Comments Are Not Requested on This Draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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THE FEDERAL ACCOUNTING
STANDARDS ADVISORY BOARD

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

Responses are requested by DUE DATE.

All comments received by 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

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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable¹ laws and regulations.

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

The Board first published conceptual guidance and standards for management to prepare MD&A content in 1999, in Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management's Discussion, and Analysis*, and in Statement of Federal Financial Accountant Standards (SFFAS) 15, *Management's Discussion and Analysis*.

The Board intended management to refer to both SFFAC 3 and SFFAS 15 to prepare MD&A because together they contained complete guidance pertaining to both form (how to report information) and content (what information to report). However, reporting entities predominantly referred only to SFFAS 15 because concepts (SFFAC 3) are not authoritative.² This resulted in segregating information into sections that often resulted in duplicating content throughout MD&A, and was, therefore, difficult for users to follow and understand.

The Board proposes these standards to provide a principles-based approach that merges and updates relevant content from SFFAC 3 and SFFAS 15 and is consistent with FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls. This proposal will provide more flexibility for reporting MD&A, will reduce preparer burden and redundancy, and will enhance transparency to present an MD&A that is balanced, integrated, concise, and understandable.

¹ Applicable laws may include; Federal Managers Financial Integrity Act (FMFIA), Federal Financial Management Improvement Act (FFMIA), and Federal Information Security Management Act (FISMA).

² See basis for conclusions, paragraphs A1-A4, for complete history.

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QUESTIONS FOR RESPONDENTS

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

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

The questions in this section are available to answer in an on-line survey at [add link](#). Specific instructions for providing your responses to this exposure draft are available once you enter the survey. If you have any issues with the survey, please contact us at fasab@fasab.gov or (202) 512-7350.

All responses are requested by [\[insert date\]](#).

Q1. The Board proposes 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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. [Please refer to paragraphs 8-13.](#)

Do you agree, partially 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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations? Please provide the rationale for your answer.

Q2. The Board believes this proposal will reduce preparer costs and burden over the long-term. [Please refer to paragraphs A31-A34.](#)

1 Do you agree, partially agree, or disagree that the proposed standards will
2 reduce preparer cost and burden over the long-term? Please provide the
3 rationale for your answer.

4 Q3. The Board explains **how** management should present information in MD&A in
5 *Presenting Information in MD&A*. Please refer to paragraphs 8-11.

6 Do you agree, partially agree, or disagree that the proposed standards in
7 paragraphs 8-11 provide adequate guidance on how management should
8 present information in MD&A? Please provide the rationale for your
9 answer.

10
11 Q4. The Board explains **what** information management should include in MD&A in
12 *Information Discussed and Analyzed in MD&A*. Please refer to paragraphs 12-13.

13 Do you agree, partially agree, or disagree that the proposed standards in
14 paragraphs 12-13 provide adequate guidance on what information
15 management should include in MD&A? Please provide the rationale for
16 your answer.

17
18 Q5. The Board proposes to rescind and replace SFFAS 15. The Board believes that
19 the MD&A proposal offers improvements over the standards in SFFAS 15. The
20 improvements include reducing preparer burden over the long-term; adopting
21 broad principle-based guidance to assist agencies in presenting a balanced,
22 concise, integrated and understandable MD&A; and allowing flexible reporting of
23 the amount of MD&A content despite a reporting entity's size or consolidation
24 status in the *Federal Financial Report of the United States Government*.

25
26 One member has an **alternative view** to this proposal. The member's alternative
27 view asserts the following.

- 28
29 • The MD&A requirements between the proposal and SFFAS 15 are neither
30 extensive nor significant, however over the long-term; the proposal may be
31 more burdensome for preparers than SFFAS 15.
- 32
33 • The rescinding and replacing of SFFAS 15 will not address any concerns with
34 clarity or redundancy of MD&As and could imply the requirements are being
35 changed extensively.
- 36
37 • The concept of an integrated MD&A is integral to and implicit in the "concise"
38 and "clear" requirements and are already included in SFFAS 15.
39

- 1 • The MD&A proposal should not impose the same requirements on all entities
2 regardless of the entity's size.

3
4 Please refer to paragraphs A44 – A54 to review the alternative view as
5 presented.

6 **Do you agree, partially agree, or disagree with the alternative view? Please**
7 **provide the rationale for your answer.**

8
9 **~~Q5. Q6.~~ Are there any other aspects of this proposal that you wish to provide**
10 **comments on? Please provide the rationale for your answer.**

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. 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).³

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement proposes to rescind SFFAS 15, Management's Discussion and Analysis.
5. This Statement proposes to replace SFFAS 15 with the proposed Management's Discussion and Analysis (MD&A) standards in this Statement.⁴

³ See SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information* paragraph 73 for concepts about required supplemental information (RSI).

⁴ 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 organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. This proposed statement presents guidance in two categories: 1) *Presenting Information in MD&A*, and 2) *Information Discussed and Analyzed in MD&A*.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. *Information Discussed and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

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 that is sufficient to meet the needs of its users by
- a. emphasizing the vital few matters related to the information required in paragraphs 12 and 13;
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR, and indicating the availability of additional information, such as from other audited documents, or unaudited federal government documents;⁵ and
 - c. limiting the use of boilerplate language by only presenting information that is relevant to the reporting entity's current financial report.

⁵ 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 and analysis.

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 nor an extensive financial or accounting background.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

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

- a. the organization and mission;
- b. the causes of significant changes and trends in
 - i. financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources; and
 - ii. financial condition as explained by
 - 1. business-type activity, social insurance, long-term fiscal projections; and
 - 2. other relevant required supplementary information⁶;
- c. the key performance⁷ results⁸, and the associated costs;
- d. the significant opportunities⁹ identified by management to enhance performance results, plans to leverage such opportunities, and the

⁶ GAAP includes reporting of required supplementary information for items such as, heritage assets or federal oil and gas resources yet may change periodically.

⁷ 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.

⁸ 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.

⁹ “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.

potential impact on financial and budgetary results of carrying out those plans¹⁰;

- e. the significant risks¹¹ 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.

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

- a. the effectiveness of the reporting entity's internal controls and financial management systems, and
- b. the reporting entity's compliance with applicable laws¹², 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 its plans 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.

¹⁰ Plans are actions the reporting entity expects to execute during the current reporting period (short-term) and into the future (long-term).

¹¹ "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.

¹² 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 content¹³ 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 Discussion and Analysis*, which was merely an outline of SFFAC 3 standards-like 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 hierarchy¹⁴, agencies relied primarily on SFFAS 15 to prepare MD&As.

A3. **During 2017 and 2018**, staff conducted [an on-line survey and](#) roundtables for the *Risk Reporting and Reporting Model-Phase I: MD&A and*

¹³ 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 contain standards-like language such as: MD&A should address; MD&A should inform, and MD&A should concisely explain...

1 *Stewardship Investments Improvements* projects¹⁵. Roundtable feedback
2 informed the Board that financial statement users (users) found federal entity
3 MD&As to be dense, duplicative, and complex. Roundtable participants
4 wanted to understand the financial performance in the context of the
5 reporting entity's financial position and condition. The MD&A included dense
6 statistical information repeated from the GPRA-MA¹⁶ reporting that did not
7 provide the financial information 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
14 a. consolidate standards-like content from SFFAC 3 and standards from
15 SFFAS 15 into one SFFAS for preparing the MD&A;
- 16
17 b. reduce preparer burden by streamlining the MD&A;
- 18
19 c. require information about a reporting entity's financial position and
20 condition for a financial focus instead of a statistical focus -based on
21 GPRA-MA reporting; and
- 22
23 d. update guidance to discuss and analyze risk plans and mitigation to
24 explain how the reporting entity will respond to opportunities and
25 uncertainties.
- 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 believes management should report in MD&A.

32
33 A6. The Board identified ~~the~~11 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*.

¹⁵ 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.

¹⁶ 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: *MD&A*
2 *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 recruited the agency pilot participants using the following FASAB
8 listserv call:

9 *Is your MD&A long, burdensome, and/or duplicative? Are you*
10 *copying and pasting information from other reports that does not*
11 *match up with the timing of the financial report? If you answered yes*
12 *to any of these questions, please consider joining the FASAB MD&A*
13 *pilot.*

14 A10. As a result, staff received requests from 14 agencies to join the MD&A pilot
15 The pilot included:

- 16 a. 11 Chief Financial Officer (CFO) Act Consolidation Agencies¹⁷ (65%),
17 one Significant Consolidation Agency (5%); and IRS, an agency within
18 Treasury, and Defense Health Program, an agency within DOD (12%)
19 participated in the pilot.
- 20 b. The other three agencies participating in the pilot were small agencies
21 recruited by staff from the Small Agency Audit Pilot Working Group
22 hosted by Fiscal Service: .Federal Trade Commission (FTC), National
23 Labor Relations Board, and Peace Corps (18%). Staff recruited these
24 small agencies from the Small Agency Audit Pilot Working Group (hosted
25 by Fiscal Service) to help determine how to streamline MD&A for small
26 agencies.

27 A9-A11. Staff conducted the pilot from January through March 2021.

- 28 a. The 17 pilot agencies created sample MD&As based on FY2020 financial
29 statements, using only the MD&A objectives and framework¹⁸. As a
30 result, the pilot agencies were able to streamline MD&A between 50 to-
31 80% percent. For example, USDA's reduced their MD&A from 77 to 12
32 pages (84%) and FTC reduced their MD&A from 46 to 13 pages (70%).

33 Feedback included the following: The Board believes the pilot results
34 were a good indicator of how a reporting entity's burden can be reduced
35 in over the long-term by applying broad principle-based guidance.

¹⁷ See Appendix A: Reporting Entities, Federal Financial Report of the United States Government

¹⁸ OMB A-136 and CEAR requirements were **not** included in the MD&A pilot to allow agencies to test if the MD&A could be streamlined with only the draft MD&A objectives and framework.

i. At the conclusion of the pilot, one of the comments staff received from a pilot agency was: this approach is refreshing and on point for the Agency Financial Report (AFR). The MD&A currently pulls attention AWAY from the financial statements and note disclosures by muddying the waters with too much other program and miscellaneous information. The changes will allow us to frame the agencies mission in the context of the financial statements and adds value to financial statement presentation rather than detracting from it.

ii. Staff did not receive any negative feedback from the smaller pilot agencies about reporting burdens associated with preparing an MD&A. In fact, they were more concerned about producing an MD&A that focused on transparency and providing users with comprehensive content about the entity's missions, accomplishments, as related to their financial position.

a.—

b. Sixteen users ~~who each~~ reviewed four sample MD&As to determine if the sample MD&As were streamlined and easy to read and understand.

~~A10:A12.~~ In April 2021 Agency pilots and user reviewers recommended that a streamlined MD&A could be accomplished by

- a. providing a comprehensive connection between performance, non-financial and financial information, and systems information while avoiding a silo effect of putting information in separate sections;
- b. focusing on key drivers (e.g. COVID-19) that impacted performance goals, significant changes in financial statement lines, and management's decisions during the reporting period;
- c. providing concise and tangible examples about the magnitude of risks and current and planned actions to address them;
- d. including high-level performance goals that support the current leadership agenda instead of low-level metrics;
- e. including well labeled trend graphs that integrate performance, financial, and budgetary resource information, and written summaries; and
- f. including more hyperlinks to detailed performance data and other important documents.

f.—

~~A11:A13.~~ The Board determined the MD&A pilot was successful and that the objectives and MD&A draft vision framework were sufficient for developing the MD&A proposed standards.

PROPOSED MD&A STANDARDS

A14. The Board developed the proposed broad principle-based MD&A standards as a result of these four years of staff work and Board deliberations. While both SFFAS 15 and the proposal require similar information, the following are examples of the Board's intended improvements for MD&A:

- a. This proposal does not include the MD&A sections, as required in SFFAS 15, therefore, eliminating duplicating information, and reducing burden.
- b. This proposal does not include references to GPRA-MA content to remove the agency burden of duplicating information and managing two different reports for their budget and APR reporting. Instead, the Board intends for costs to be linked with performance results to provide a more complete picture of a reporting entity's operating and financial performance.
- c. The proposal requires information about the underlying causes of significant changes and trends in financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources¹⁹; whereas SFFAS 15 only requires forward-looking information regarding the possible future effects of the most important existing, currently-known... trends²⁰.
- d. This proposal provides broad principle-based guidance for how to present a **balanced** (paragraphs 8, A17), **concise** (paragraphs 9, A18), **integrated** (paragraphs 10, A19), and **understandable** (paragraphs 11, A20) MD&A. These four characteristics are an improvement over SFFAS 15 because "how" requirements are scattered and disconnected throughout SFFAS 15, for example:
 1. paragraph 1 includes, MD&A should provide a clear and concise description of ...;
 2. while paragraph 5 says, Because MD&A must be concise if it is to be useful; and
 3. paragraph 6 mentions, MD&A should deal with the "vital few" matters.

A12:A15. The Board identified two categories to highlight these improvements and facilitate preparation of MD&A: 1) Presenting Information in MD&A, and

¹⁹ ED, paragraph 12.b

²⁰ SFFAS 15, paragraph 3

2) ~~Information Discussed and Analyzed in MD&A to facilitate preparation of MD&A that reflects the reporting and project objectives presented in this proposal.~~

~~A13. 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

A16. The Board intends for the broad principle-based standards in *Presenting Information in MD&A* to guide management in **how** to present a balanced, integrated, concise, and understandable MD&A—the four characteristics of an MD&A—*Presenting Information in MD&A*, explains how management should present a balanced, integrated, concise, and understandable MD&A.

~~A14.~~A17. The Board believes that a **balanced** MD&A explains 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 also includes trend information over multiple prior reporting periods to help users understand 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.

~~b.~~

1
2
3
4
5
6
7
8
9
10
11
12 ~~A15.~~ The Board believes that to achieve a **concise** MD&A management
13 emphasizes the vital few matters for information required in paragraphs 12
14 and 13, summarizes detailed information found outside of MD&A with
15 references to that information, and limits boilerplate language and only
16 presenting information current to the reporting entity.

17 A18.

18 a. For example:

- 19
20 i. MD&A summarizes information necessary to understand the
21 reason(s) for significant changes in net cost.
22
23 ii. MD&A provides a brief discussion about the reporting entity's
24 operating performance with reference to the additional detailed
25 information found within the GPFFR or in another Federal
26 government document.
27

28 ~~A16-A19.~~ The Board believes an **integrated** MD&A incorporates quantitative,
29 qualitative, financial, and non-financial information across various elements.
30 For example, MD&A may include the interrelationship of budgetary, financial,
31 and operating performance results for -"major" programs, as presented in the
32 reporting entity's Statement of Net Cost.

33
34 ~~A17-A20.~~ The Board's intent is that an MD&A is **understandable** to any user
35 who may not have an extensive knowledge of U.S. Government operations or
36 an extensive financial or accounting background.

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

- 1
- 2 b. To achieve an understandable MD&A, management has the flexibility to
- 3 combine different methods of presenting information that appeal to a
- 4 variety of users. For example, an understandable MD&A may need to
- 5 include organizational tools, such as headers, sub-headers, bullet-points,
- 6 or crosswalks to financial reports; and visual aids, such as charts, tables,
- 7 or graphs to help explain quantitative information.
- 8
- 9

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

11 A21. The Board intends for the broad principle-based standards in *Information*
12 *Discussed and Analyzed in MD&A* to guide management in ~~identifies what~~
13 ~~information management should present~~ **be included** in MD&A to explain how
14 **and why the organization's mission, opportunities and risks, and systems,**
15 **internal controls, and compliance significantly contributed to the improvement**
16 **or deterioration of the reporting entity's financial position, financial condition,**
17 **and key performance results.**

18 A18-A22. The Board's intent is for MD&A to provide a brief description of the

19 reporting entity's organization and mission **to explain** key organizational

20 components.

- 21 a. Management has the flexibility to determine how much information to
- 22 include about the mission(s) and organizational components in relation to
- 23 the size and complexity of the reporting entity.
- 24 b. For example, a large reporting entity could briefly summarize the
- 25 reporting entity as a whole as well as each significant component/agency
- 26 entity, while a small reporting entity could focus on the entity as a whole.
- 27

28 A19-A23. The Board's intent is for MD&A to explain what caused significant

29 changes in a reporting entity's **financial position and condition.**

- 30 a. Financial position is typically the account status of an entity's assets,
- 31 liabilities, and equity positions as reflected on its financial statement.
- 32 However, for the MD&A, the Board believes that users will better
- 33 understand the reporting entity's financial position through
- 34 management's explanations about significant changes in the
- 35 composition or the balances of assets, liabilities, net position; as well as
- 36 costs, revenues, budgetary resources, and financing sources. This
- 37 would better address users' interest in the use of the reporting entity's
- 38 budget and other revenue sources to support the accomplishment of its
- 39 mission(s).

- 1
- 2 b. Appropriate examples include language such as:
- 3
- 4 i. "Support of pandemic-related relief efforts led to a significant
- 5 decrease of stockpile materials of vaccines by \$\$\$" would be
- 6 consistent with the Board's intent, where as "inventory decreased
- 7 because of a decrease in stockpile materials" would not.
- 8
- 9 ii. "Disaster recovery efforts from natural disasters in X area of the
- 10 country during 202X significantly increased the cost of X by \$\$\$"
- 11 would be consistent with the Board's intent, where as "an unexpected
- 12 increase in costs deteriorated the financial position" would not.
- 13
- 14 c. Financial condition is broader and more forward-looking than financial
- 15 position.²¹ The Board believes that users will best understand the
- 16 financial condition of reporting entities through management's
- 17 explanation about significant changes in business-type activity, social
- 18 insurance, long-term projections, and other relevant requirement
- 19 supplementary information.
- 20
- 21

22 ~~A20-A24.~~ The Board believes that MD&A explains what **performance results**

23 are key to the reporting entity and the associated cost.

- 24 a. MD&A focuses on what it costs the agency and its key organizational
- 25 components to pursue or to accomplish key performance results, as well
- 26 as whether the accomplishment of key performance results resulted in
- 27 cost savings for the agency.
- 28 b. For example, MD&A explains how key performance accomplishments
- 29 and challenges affected budgetary or financing resources during the
- 30 reporting period.
- 31 c. However, the reporting of consolidated governmentwide key performance
- 32 results is not required in the MD&A of the Financial Report of the U.S.
- 33 Government based on the following:
- 34
- 35 i. Paragraph 6 of SFFAC 4, which states: *the Financial Report of the*
- 36 *U.S. Government [CFR] is a general purpose report that is*
- 37 *aggregated from agency reports and tells users where to find*
- 38 *information in other formats both aggregated and disaggregated*
- 39 *formats, such as individual agency reports, agency websites, or the*
- 40 *President's Budget.*

²¹ SFFAC 1, paragraph 180.

- 1
- 2 ii. The *Appendix on Reporting Entities* in the Financial Report of the U.S.
- 3 Government which provides references to websites where users can
- 4 review a reporting entity's MD&A discussion of key performance
- 5 results and challenges.
- 6

7 **A21-A25.** The Board's intent is for MD&A to explain significant **opportunities**

8 the reporting entity is managing in relation to performance accomplishments

9 and challenges. For example, what is the reporting entity implementing or

10 what does it plan to implement to leverage opportunities and what are the

11 effects on key performance or financial results?

12 **A22-A26.** The Board's intent is for MD&A to explain significant **risks** the

13 reporting entity is managing in relation to performance accomplishments and

14 challenges. For example, what is the reporting entity implementing or what

15 does it plan to implement to address a significant risk that may have a

16 negative effect on key performance or financial results?

17

18 **A23-A27. Systems, Internal Controls, and Compliance**

19 a. The Board believes that MD&A provides an assessment of the reliability

20 of the reporting entity's financial information by explaining significant

21 weaknesses in the financial management system, related systems,

22 internal controls, or non-compliance with applicable laws.

23 **b.** MD&A should explain whether the reporting entity executed and recorded

24 transactions in accordance with budgetary and financial laws and Federal

25 accounting standards to prepare the agency financial report.

26

27 **A24-A28. Stewardship Investments**

- 28 a. On June 11, 1996, the Board published SFFAS 8, *Supplementary*
- 29 *Stewardship Reporting* that included a requirement to report "required
- 30 supplemental stewardship information" (RSSI).
- 31 b. On September 27, 2019, the Board published SFFAS 57, *Omnibus*
- 32 *Amendments 2019*, which rescinded the remaining RSSI requirements of
- 33 SFFAS 8²², eliminating the requirement for reporting RSSI.
- 34 c. In the SFFAS 57 basis for conclusions, paragraphs A7 – A10, the Board
- 35 discussed the comments from the 11 respondents. The majority of those
- 36 responders agreed with eliminating RSSI because users did not rely upon
- 37 that information. The minority of respondents who wanted to continue
- 38 including RSSI in a separate category believed that distinguishing

²² SFFAS 57, paragraph 2

stewardship information informed users on the extent of investments that provided long-term benefits for the nation.

- d. SFFAS 57 basis for conclusions, paragraph A11²³ indicated that the Board would also consider whether to report stewardship investments in MD&A.
- e. This project considered the SFFAS 57 responses by reviewing agency financial reports. The Board found that practice indicates that most reporting entities have concluded that information about stewardship investment is not significant enough to warrant inclusion in the MD&A. Therefore, the Board chose not to add the requirement that reporting entities should include stewardship investments in MD&A.
- f. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management believes this information is relevant or significant to explaining the reporting entity's financial position or condition.

RESCISSION AND REPLACEMENT OF SFFAS 15

A29. The Board is proposing to rescind the MD&A standards in SFFAS 15 because all relevant standards have been adapted into these proposed MD&A standards and replace it with this proposal.

A30. The Board spent a considerable amount of time deliberating the option to amend SFFAS 15 as opposed to the option to rescind and replace SFFAS 15. The Board believes that rescission and replacement is the better option given the proposal provides a broad comprehensive principles-based approach through a comprehensive set of standards. The rescind and replace option merges and updates the relevant content from SFFAC 3 and SFFAS 15, while maintaining its consistency with SFFAC 1, Objectives of Federal Financial Reporting for -- budgetary integrity, operating performance, stewardship, and systems and controls.

A31. The Board believes this proposal also addresses the concerns collected during 2017-2018 through an on-line survey and round-tables. These concerns were the reason for the MD&A project, which began in 2019.

A32. The 2017-2018se outreach activities revealed that MD&A was very dense with duplicative information making it very hard for a user to understand the financial position and condition of the agency. One reason noted as a cause

²³ SFFAS 57, basis for conclusions, paragraph A11.

1 for the density and duplication, was the section requirements and titles stated
2 in SFFAS 15, paragraph 2.

3 *MD&A should contain sections that address the entity's mission and*
4 *organizational structure; performance goals, objectives, and results;*
5 *financial statements; and systems, controls, and legal compliance.*

6 A33. As a result, agencies repeated the same information throughout the MD&A in
7 the different sections to make sure they provided enough information in each
8 section. Section requirements created duplicative and dense information in the
9 MD&A for a user to decipher.

10 A34. The proposal does not include the MD&A sections, as required in SFFAS 15,
11 which in turn will reduce burden by eliminating the need for reporting entities to
12 duplicate information across multiple sections.

13 A35. The Board intends for this proposal to provide flexibility as to how much
14 content management wants to include in the MD&A despite a reporting entity's
15 size or consolidation status for the *Federal Financial Report of the United*
16 *States Government.*

17 A36. Another cause for dense information in the MD&A is the titles of the required
18 sections in SFFAS 15, paragraph 2. For example,

19
20 a. The term "structure" in the title, "mission and organizational structure "has
21 led agencies to include organizational charts and other information not
22 related to financial position and condition. The proposed standards do not
23 include the term "structure" to encourage flexibility in providing information
24 about key organizational components as related to the reporting entities
25 financial position, condition, and key performance results.

26
27 b. The title "performance goals, objectives, and results" is GPRA-MA
28 terminology. As a result, agencies have reported extensive performance
29 information as required by GPRA-MA using percentages achieved instead
30 of how performance relates to what the reporting entity achieved in
31 relation to budget and financial resources used.

32
33 A37. The Board believes these proposed broad principle-based standards will
34 guide reporting entities to produce an MD&A that focuses on what it costs the
35 agency and its key organizational components to pursue or to accomplish
36 key performance results, as well as whether these accomplishments resulted
37 in cost savings for the agency.

1
2
3 A38. The Board believes that not including references to GPRA-MA content will
4 reduce duplicating information because the reporting entity will not need to
5 produce and manage multiple performance reports (budgetary and financial)
6 that have different reporting times.

7 A25.—
8

9 A39. The Board acknowledges the updates OMB has made to improve MD&A
10 reporting in A-136, *Financial Reporting Requirements*. However, FASAB
11 establishes generally accepted accounting principles (GAAP) for the federal
12 government through its pronouncements. This proposal will be level A
13 guidance in the GAAP hierarchy.
14

15 A40. The Board believes rescinding and replacing SFFAS 15 provides broad
16 principle-based set of comprehensive standards to guide management in how
17 to present an MD&A that is balanced, integrated, concise, and understandable
18 about the reporting entity's organization and mission; financial position and
19 condition; operating performance, opportunities, and risks; and systems,
20 internal controls, and compliance with applicable laws and regulations.

21 A26-A41. — The Board believes that because this proposal has adapted all
22 relevant standards-like content from SFFAC 3. Therefore, *Omnibus Concepts*
23 *Amendments 202X* will amend MD&A concepts in SFFAC 2 and rescind
24 MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one
25 SFFAC.~~propose to rescind SFFAC 3~~
26

27 A27-A42. — The Board does not intend for this proposal to affect other statements
28 that require information in MD&A, such as, SFFAS 37, *Social Insurance:*
29 *Additional Requirements for Management's Discussion and Analysis and*
30 *Basic Financial Statements*. The Board believes including the SFFAS 37
31 MD&A requirements in this proposal would cause duplication of information
32 already required in MD&A.
33

~~A28.~~ ALTERNATIVE VIEW

~~A29.~~

~~A43. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a proposed standard. The alternative view discusses the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the individual member alone. However, the individual member's view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The material following was prepared by an individual member and is presented as an alternative view.~~

~~A30-A44. Ms. Johnson believes that the MD&A project has been worthwhile because it has allowed the Board to reexamine the contents and characteristics of the MD&A and it has informed OMB's updates to its MD&A guidance in Circular A-136, Financial Reporting Requirements. Ms. Johnson agrees with the ED's conclusions regarding the contents and characteristics of the MD&A, but has four general concerns with the ED.~~

~~A31.~~

~~A32-A45. First, Ms. Johnson believes that there are no significant differences between the required contents and characteristics of the MD&A under the ED and under SFFAS 15. Both require information about: (1) the entity's mission and organizational structure; (2) entity-level performance; (3) financial position and condition, including significant changes to financial position and/or condition and relevant prior-period, current-period, and forward-looking information; (4) financial and performance risks; and (5) an assessment of the entity's financial management systems, controls, and legal compliance. Both require the MD&A to be balanced, concise, and clear or understandable.²⁴~~

~~A33.~~

~~A34-A46. Unlike SFFAS 15, the ED states explicitly that the MD&A should be "integrated."²⁵ Ms. Johnson agrees with this requirement and notes that OMB amended A-136 in FY 2018 to stress that the MD&A should be integrated. In addition, Ms. Johnson believes that the concept of an integrated MD&A is integral to and implicit in the "concise" and "clear" requirements already included in SFFAS 15. Consequently, the explicit reference to integrated in the ED might not be critical to ensuring that MD&As are integrated. Also, Ms.~~

²⁴ SFFAS 15, paragraph 1, states that the MD&A needs to be "clear," "concise," and "balanced;" paragraph 5 states that the "MD&A must be concise if it is to be useful;" and paragraph 6 states that the "MD&A should deal with the vital few matters."

²⁵ See paragraph 10 of the ED.

Johnson notes that in FY 2021, OMB further amended A-136 to promote integrated MD&As by allowing management to choose section titles, which could, but do not need to, correspond to each type of information required by SFFAS 15.²⁶

~~A35.~~

~~A36-A47.~~ Second, Ms. Johnson is concerned that rescinding SFFAS 15 and issuing a new MD&A standard, as proposed in the ED, might imply that the MD&A requirements are being changed extensively, which, as noted above, she does not believe is the case. Ms. Johnson believes that this perception of significant changes resulting from the ED may also result from the fact that the ED does not state explicitly that it leaves the contents and characteristics of the MD&A largely unchanged. Ms. Johnson is concerned that this perception could make the preparation process more labor-intensive, at least in the near term, as preparers transition to a new standard and together with their auditors interpret new guidance.

~~A37.~~

~~A38-A48.~~ In this regard, Ms. Johnson notes that even though the ED is not changing the MD&A requirements extensively, it could be more burdensome for preparers than SFFAS 15 in the long term. This is because, in her opinion, the ED contains more prescriptive requirements than SFFAS 15 (see ED paragraphs 12 and 13) and because the ED includes the four characteristics of the MD&A (in paragraphs 8 through 11) as discrete standards. Ms. Johnson believes that these changes will lengthen, rather than shorten, MD&A checklists used by preparers and auditors.

~~A39.—~~

~~A40-A49.~~ Ms. Johnson would like to ask respondents to address the question of whether and how the ED will affect reporting burden.

~~A41.~~

~~A42-A50.~~ Third, Ms. Johnson believes that current MD&As are generally comprehensive and understandable and does not believe that any duplicative or unclear text in MD&As is the result of SFFAS 15 or the fact that SFFAC 3 is not authoritative guidance. Rather, she believes that any duplicative or unclear MD&A text results from limited staff resources. Consequently, Ms. Johnson believes that amending or rescinding SFFAS 15 will not address any concerns with clarity or redundancy of MD&As.

~~A43.~~

~~A44-A51.~~ To the extent that MD&As could benefit from streamlining or editing, Ms. Johnson believes that, in the absence of additional resources being provided to agencies, the solution may require additional staff training (rather

²⁶ As noted in A-136, Section II.2.1, one section title, “Analysis of Systems, Controls, and Legal Compliance,” is required because of a requirement in OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control.

1 than amendments to SFFAS 15). The pilot conducted in the development of
2 the ED resulted in improved MD&As largely because of FASAB staff guidance
3 to agencies and because of the thorough and careful work of agency staff
4 participating in the pilot.

5 ~~A45.~~

6 ~~A46-A52.~~ Fourth, Ms. Johnson notes that, like SFFAS 15, the ED imposes the
7 same requirements on all entities regardless of entity size. Requiring the
8 MD&A of only CFO Act entities or entities that are significant at the
9 Government-wide level could reduce reporting burden for smaller and
10 component entities. Those smaller or component entities that would like to
11 prepare an MD&A could do so at management's discretion. In this regard, Ms.
12 Johnson believes that the ED misses an opportunity to explore "tiered"
13 reporting in the Federal environment (i.e., different reporting requirements for
14 entities of different sizes).

15 ~~A47.—~~

16 ~~A48-A53.~~ Ms. Johnson would like to ask respondents to address the question
17 of whether and, if so, why they would support tiered reporting for: (1) the non-
18 CFO Act agencies that are significant at the Government-wide level, (2)
19 entities that are not significant at the Government-wide level, and (3)
20 component entities.

21 ~~A49.~~

22 ~~A50.~~

23 ~~A51-A54.~~ As noted in paragraph **AXX** Ms. Johnson believes that the MD&A
24 project has been worthwhile. It has confirmed that the contents and
25 characteristics of the MD&A as specified in SFFAS 15 remain appropriate
26 more than 20 years after it was written. If, however, the Board concludes that
27 changes to MD&A standards are necessary, Ms. Johnson suggests that such
28 changes be made with minimal amendments to SFFAS 15, paragraphs 1-4
29 and 7, rather than rescinding and replacing SFFAS 15 in its entirety.

APPENDIX B: MD&A OBJECTIVES

The Board developed the proposed MD&A standards, by first identifying objectives for what it believes 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 GPRA-MA 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>SFFAC 3, <i>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. |

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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 Discussion and Analysis |
| OMB | Office of Management and Budget |
| RSI | Required Supplemental Information |
| SFFAC | Statement of Federal Financial Accounting Concepts |
| SFFAS | Statement of Federal Financial Accounting Standards |
| U.S. | United States |

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Statement of Federal Financial Accounting Standards 15: Management's Discussions and Analysis

Status

| | |
|-----------------------|---|
| Issued | August 12, 1999 |
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| Affects | None. |
| Affected by | None. |

Summary

This document establishes standards for preparing Management's Discussion and Analysis (MD&A). MD&A is an important vehicle for (1) communicating managers' insights about the reporting entity, (2) increasing the understandability and usefulness of the general purpose federal financial report (GPFFR),¹ and (3) providing understandable and accessible information about the entity and its operations, service levels, successes, challenges, and future. Some federal agencies also refer to MD&A as the "overview."

The basic concept that underlies the standards for MD&A is:

Each general purpose federal financial report (GPFFR) should include a section devoted to management's discussion and analysis (MD&A). It should address the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems. The discussion and analysis of these subjects may be based partly on information contained in reports other than the GPFFR. MD&A also should address significant events, conditions, trends and contingencies that may affect future operations.

A separate document titled *Concepts for Management's Discussion and Analysis* explains the conceptual basis for the role and importance of MD&A, the general content of the GPFFR, and the elements of MD&A. The concepts provide a foundation for the standards presented in this document. The concepts include suggestions about the contents of MD&A, but those suggestions are not accounting standards or principles for federal reporting entities. In particular, the concepts are not "prescribed guidelines" for required supplementary information as discussed in section 558 of the *Codification of Statements on Auditing Standards* published by

¹The term "general purpose federal financial report," abbreviated GPFFR, is used as a generic term to refer to the report that contains the entity's financial statements that are prepared and audited pursuant to the CFO Act of 1990, as amended. Entities may refer to these reports using different terms, such as "Annual Report," "Accountability Report," "Financial Management Report," etc. Paragraphs 54-112 and Appendix 1 of Statement of Federal Financial Accounting Concepts 2, Entity and Display, describe and illustrate the contents of the GPFFR.

the American Institute of Certified Public Accountants (AICPA). The only standards and prescribed guidelines for MD&A are in paragraphs 1-8 of this document.

The standards require MD&A to be included in each GPFFR as required supplementary information (RSI). MD&A should address:

- the entity's mission and organizational structure;
- the entity's performance goals and results;
- the entity's financial statements;
- the entity's systems, controls, and legal compliance; and
- the future effects on the entity of existing, currently-known demands, risks, uncertainties, events, conditions and trends.

The discussion and analysis of these subjects may be based on information in other discrete sections of the GPFFR or it may be based on reports separate from the GPFFR. The standards are effective for reporting periods that begin after September 30, 1999.

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Management's Discussion And Analysis

Statement Of Standards

1. A report that presents a Federal reporting entity's financial statements in conformance with Federal accounting principles should include management's discussion and analysis (MD&A) of the financial statements and related information. MD&A should provide a clear and concise description of the reporting entity and its mission, activities, program and financial performance, systems, controls, legal compliance, financial position, and financial condition. MD&A should provide a balanced presentation that includes both positive and negative information about these topics. MD&A should be regarded as "required supplementary information" as that term is used in auditing standards.²
2. MD&A should contain sections that address the entity's:
 - mission and organizational structure;
 - performance goals, objectives, and results;
 - financial statements; and
 - systems, controls, and legal compliance.
3. MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends. MD&A may also include forward-looking information about the

²See section 558, "Required Supplementary Information," in *Codification of Statements on Auditing Standards*, American Institute of Certified Public Accountants (AICPA)

possible effects of anticipated future demands, events, conditions, and trends.³ Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.

4. MD&A should discuss important problems that need to be addressed, and actions that have been taken or planned. Actions needed, taken, and planned may be discussed within the sections listed above or in a separate section of MD&A.
5. Because MD&A must be concise if it is to be useful, management must select the most important matters to discuss. This means that some items that are material to the financial statements, notes, and other sections of the GPFFR may not be discussed in MD&A.
6. MD&A should deal with the “vital few” matters; i.e., the most important matters that will probably affect the judgments and decisions of people who rely on the GPFFR as a source of information. (The specific topics mentioned in *Concepts for Management’s Discussion and Analysis* are examples of items that might be relevant for MD&A of a given entity.) Matters to be discussed and analyzed are those that management of the reporting entity believes it is reasonable to assume could:
 - lead to significant actions or proposals by top management of the reporting unit;
 - be significant to the managing, budgeting, and oversight functions of Congress and the Administration; or
 - significantly affect the judgment of citizens about the efficiency and effectiveness of their Federal Government.
7. Management of the reporting unit is responsible for the content MD&A.
8. The standards are effective for reporting periods that begin after September 30, 1999.

³The word “anticipated” is used in a broad, generic sense in this document. In this context the term may encompass both “probable” losses arising from events that have occurred, which should be recognized on the face of the basic or “principal” financial statements, as well as “reasonably possible” losses arising from events that have occurred, which should be disclosed in notes to those statements. “Anticipated” may include the effects of future events that are deemed probable, for which a financial forecast would be appropriate. The term may also encompass hypothetical future trends or events that are not necessarily deemed probable, for which financial projections may be appropriate. Such information about the possible effects of anticipated future demands, events, conditions and trends, if presented, should include the term or label “projected” or “projection,” and the key hypothetical underlying assumptions should be explained. As with other information presented in MD&A, no examination of this information by the auditor is now routinely included within the scope of an audit of a federal entity’s financial statements; however, preparers and auditors may find useful background information in the AICPA’s Statements on Standards for Attestation Engagements Nos. 1 and 4, codified as section 200, “Financial Forecasts and Projections,” of the AICPA’s *Codification of Statements on Standards for Attestation Engagements*.

This Statement of Recommended Standards was adopted unanimously by the eight members of the Federal Accounting Standards Advisory Board serving on the Board in April 1999.

Appendix A: Basis For Conclusions

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. Within the text of the Statements, the authoritative sections 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.

Background, Rationale, and Project History

9. The Board identified MD&A as a topic for its agenda shortly after the Board's inception. The Board deferred work on this topic, however, until it completed recommendations for an initial set of basic accounting standards.
10. FASAB published an initial exposure draft on MD&A in January, 1997. It was presented as a statement of recommended concepts rather than standards. The Board proposed that it would deal with MD&A conceptually, with the understanding that OMB would provide authoritative guidance on MD&A to implement the concepts. This approach would have been similar to the one used to deal with the topics of entity and display. The Board dealt with those topics conceptually in SFFAC 2. OMB then provided authoritative guidance in its Bulletin on Form and Content.
11. The Board received comment letters on the initial exposure draft from the following sources:

| | Federal (internal) | Nonfederal (external) | Total |
|--|---------------------------|------------------------------|--------------|
| Citizens, users, academics and others ⁴ | | 4 | 4 |
| Auditors | 7 | 3 | 10 |
| Preparers and financial managers | 16 | | 16 |
| Totals | 23 | 7 | 30 |

⁴This category includes representational organizations, retired federal employees, federal employees responding as individuals, and federal contractors, as well as academics and other GPFFR users.

Concepts and Standards

12. The first exposure draft asked respondents whether all or part of the exposure draft's provisions should be issued as recommended standards rather than recommended concepts. Responses were mixed; most of those who commented on this question favored concepts, but a significant number expressed the view that standards would be appropriate. The Board concluded that, given the importance of MD&A as an integral part of the GPFFR, it would be appropriate for federal accounting principles to include standards for MD&A.
13. At the same time, the Board concluded that MD&A should be treated as required supplementary information. The Board agreed that it would recommend no detailed requirements or guidelines for MD&A at this time, beyond those in paragraphs 1-8. In other words, a discussion and analysis by management that addresses the listed topics should be required, because it is an essential part of a complete GPFFR. At the same time, management should have great discretion regarding what to say about those topics, subject only to the criteria in paragraphs 1-8 and the pervasive requirement that MD&A not be misleading. The standard itself, therefore, is not extremely prescriptive.
14. Because of this change from what was originally exposed for comment, the Board decided to expose separately the proposed standards and concepts for further comment. The exposure drafts were issued in October, 1998; responses were requested by January 1999. The proposed standard, like the final recommended standard, would require the auditor to note the omission of MD&A or the failure to address the specified topics. At the same time, RSI status for MD&A—coupled with the lack of specific, detailed, prescriptive standards for the content of MD&A—would minimize the requirement for the auditor to scrutinize MD&A. This, the Board believed, would provide the flexibility appropriate for dealing with topics such as performance measurement at this point in the evolution of federal financial reporting.

Responses to Second Exposure Draft

15. The Board received comment letters on the second exposure draft from the following sources:

| | Federal (internal) | Nonfederal (external) | Total |
|---------------------------------------|--------------------|-----------------------|-----------|
| Citizens, users, academics and others | | 3 | 3 |
| Auditors ⁵ | 3 | 3 | 6 |
| Preparers and financial managers | 11 | | 11 |
| Totals | 14 | 6 | 20 |

16. Most comments were generally favorable, but comments were mixed regarding some points. A few auditors and preparers expressed some concern about requiring forward-looking information as RSI. Others expressed support for doing so. After considering these responses, the Board agreed to defer the recommended implementation date of the standard by one year and to make minor editorial changes to the standards and concepts that were exposed for comment.
17. Although the resulting standard differs from private sector standards, the Board expects that, in practice, the effect on auditors will not be greatly different.⁶ In the private sector, corporations frequently include with their annual financial report the MD&A that they are required to file with the SEC. Because it is required by the SEC rather than by accounting standards, the auditor engaged to audit the corporation's financial statements normally treats MD&A as "accompanying information" that is not audited in the context of the audit of the financial statements. The auditor also may review the submission to the SEC and may have certain responsibilities in that regard, but the auditor's usual role regarding MD&A is, nevertheless, fairly limited.
18. Because this standard defines MD&A for federal reporting entities as RSI, auditors will have certain responsibilities regarding it; however, both the accounting standards specified here and the auditing standards specified by the AICPA (and incorporated in Government Audit Standards) for RSI are rather general. Therefore, the Board does not expect that this standard will cause the auditor to be deeply involved in reviewing the contents of MD&A.

⁵Includes the AICPA's Federal Accounting and Auditing Subcommittee and the Comptroller General's Advisory Council on Government Audit Standards.

⁶The standard itself differs from the SEC's guidance for MD&A in ways that reflect the unique federal reporting environment. This will affect what financial statement preparers must do to comply with the standard. For example, reporting on performance of governmental programs requires measures in addition to net income or net cost.

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19. More specific requirements regarding the content of MD&A may be added later by OMB acting on its own authority or pursuant to future FASAB recommendations. For example, OMB might at some time in the future require preparers to address certain of the suggested items in Concepts for Management's Discussion and Analysis. OMB also may provide more specific guidance regarding the auditor's responsibility for MD&A. That guidance may call for more extensive review of all or parts of MD&A than the minimum contemplated by this accounting standard in the context of current auditing standards. For example, OMB might at some time in the future decide that the minimum scope of engagements to audit federal financial statements should be expanded to include a review or examination of all or parts of MD&A, consistent with attestation guidelines published by the AICPA.⁷
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Accountability Reports

20. The Board notes that the concept and practice of the "Accountability Report" continue to evolve through the pilot project voluntarily undertaken by several agencies.⁸ The Board supports this evolution and encourages agencies to participate in the pilot project. The concepts and standards FASAB recommends are intended to be applicable to the GPFFR of Federal entities, whether those reports are prepared pursuant to the Chief Financial Officers Act, the Government Management Reform Act, or some future law that might establish a statutory basis for Accountability Reports. In the event of such future legislation, OMB will need to resolve any questions about how to apply existing Federal accounting standards in the context of new legislative requirements.
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Forward-looking Information

21. MD&A should include forward-looking information regarding the future effects of existing, currently-known demands, risks, uncertainties, events, conditions and trends. This kind of
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⁷See Statement on Standards for Attestation Engagements No. 8, *Management's Discussion and Analysis*, issued by the Auditing Standards Board of the AICPA, March 1998.

⁸Accountability reports are broader in scope than traditional general purpose financial reports. As explained by OMB: "Six pilot agencies volunteered to produce an 'Accountability Report' for FY 1995 to provide more useful information to decision makers by linking together information required by several management statutes... Accountability Reports integrate the following information: the FMFIA report, the CFOs Act Annual Report (including audited financial statements); management's Report on Final Action as required by the IG Act; Civil Monetary Penalty and Prompt Payment Act reports; and available information on agency performance compared with its stated goals and objectives, in preparation for implementation of GPRA." *Federal Financial Management Status Report and Five Year Plan*, June 1996, pp. 33-34. Twelve agencies produced accountability reports for FY 1997; eighteen plan to do so for FY 1998; the number will increase to 23 for FY 2000. (The requirement to include Civil Monetary Penalty and Prompt Payment Act reports has been deleted.)

forward-looking information is required when management believes it would be important to people who read the financial report. Though not required, MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. FASAB encourages management to include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends to the extent management believes such information would be useful and relevant. This information can be highly useful, but management should avoid turning this part of MD&A into mere “lobbying” for more budgetary authority.

Incorporation by Reference

22. Some respondents expressed concern that, if MD&A is to be regarded as RSI, audit problems might arise from “incorporation by reference” in MD&A of information drawn from other sources that might not have been subject to audit or review as basic or required supplementary information, and for which authoritative guidance had not been provided by a standard setter. The Board noted that most of those who commented, including most auditors, did not appear to be greatly concerned about this potential problem. The Board concluded, therefore, that any such problems were not likely to be insurmountable. The Board did, however, agree to defer by one year the implementation date of the standard to allow OMB and GAO time to resolve any audit issues that may arise.