

## Memorandum

### MD&A

March 27, 2024

To: Members of the Board  
From: Robin M. Gilliam, Assistant Director  
Thru: Monica R. Valentine, Executive Director  
Subject: Review Draft Proposed SFFAS: *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* (Topic D)

### INTRODUCTION

At the February 2024 meeting, the Board discussed the comment letter responses and staff's analysis on the MD&A exposure draft, which was released on September 7, 2023.

This agenda session will review the updates made to the draft proposed Statement of Federal Financial Accounting Standards (SFFAS): *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15*, based on the February 2024 Board decisions.

- I. The Board agreed that the proposed MD&A standards would **rescind and replace SFFAS 15** based on the differences and benefits [value added] as compared to SFFAS 15. The Board agreed to update the summary and basis for conclusions with the following information.

The proposed Statement adds value by

- providing a concise set of principle-based standards that will guide management in providing a discussion and analysis of the reporting entity's financial position and condition that is useful for all users, especially those who are not experts in government financial matters;
- encouraging flexibility for how management can efficiently and effectively prepare MD&A content thus reducing a reporting entity's preparation efforts in the long run; and
- guiding management in how to prepare a balanced, concise, integrated, and understandable MD&A instead of duplicating dense information across required sections.

- II. The Board agreed to update paragraph 9.c **to clarify how to achieve a concise MD&A by**
- keeping the phrase “vital few matters” and updating the explanation in the basis for conclusions;
  - updating the explanation for how to reference unaudited information found outside the general purpose federal financial report; and
  - removing the term “boilerplate” and replacing it with a better description.
- III. The Board agreed to update paragraph 12.c **by changing “key performance results and associated costs”** to “key performance results and associated costs, such as providing costs to the extent possible or budgeted amounts...”. The Board believes this guidance will **provide more flexibility** for a reporting entity to discuss the costs for achievements and challenges.

## REQUEST FOR FEEDBACK BY April 9, 2024

**Prior to the April Board meeting**, please review the briefing materials and respond to the staff question no later than April 9, 2024. Please provide responses to Robin Gilliam at [GilliamR@fasab.gov](mailto:GilliamR@fasab.gov) with a cc to Monica Valentine at [ValentineM@fasab.gov](mailto:ValentineM@fasab.gov).

## NEXT STEPS

Staff will present a pre-ballot draft statement for approval.

## ATTACHMENTS

1. Draft Proposed SFFAS: *Management’s Discussion and Analysis Rescinding and Replacing SFFAS 15* - Clean Version
2. Draft Proposed SFFAS: *Management’s Discussion and Analysis Rescinding and Replacing SFFAS 15* - Tracked Version
3. Member Comment Form

**Question #1 for the Board - Does the Board agree with the draft SFFAS: *Management’s Discussion and Analysis Rescinding and Replacing SFFAS 15*?**

Please provide your answer and comments in the Board Member Comment Form.

**MD&A**

**March 27, 2024**

**Topic D**

## **ATTACHMENT 1**

# **Draft Proposed SFFAS Management's Discussion and Analysis Rescinding and Replacing SFFAS 15 – Clean Version –**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING AND REPLACING SFFAS 15

**Statement of Federal Financial Accounting Standards**

**DRAFT PROPOSED STATEMENT**

September XX, 2024

Public comments are not requested on this draft

## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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## SUMMARY

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This Statement updates the guidance for management's discussion and analysis (MD&A). In 1999, the Board first published conceptual guidance and standards for preparing the MD&A 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 Discussions and Analysis*.

The Board intended for management to refer to both SFFAC 3 and SFFAS 15 to prepare the 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 SFFAC 3 was not authoritative.<sup>1</sup> This resulted in segregating information into sections that often resulted in duplicating content throughout MD&A, which was difficult for users to follow and understand.

This Statement merges and updates relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls.<sup>2</sup>

This Statement adds value by

- providing a concise set of principle-based standards that will guide management in providing a discussion and analysis of the reporting entity's financial position and condition that is useful for all users, especially those who are not experts in federal government financial matters;
- encouraging flexibility for how management can efficiently and effectively prepare MD&A content thus reducing a reporting entity's preparation efforts in the long run; and
- guiding management in how to prepare a balanced, concise, integrated, and understandable MD&A instead of duplicating information across required sections.

This Statement rescinds and replaces SFFAS 15, *Management's Discussions and Analysis*.

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<sup>1</sup> See basis for conclusions, paragraphs A1-A4, for a complete history.

<sup>2</sup> See basis for conclusions, paragraphs A5-A14 and appendices B: *MD&A Objectives* and C: *Draft MD&A Vision Framework* for details about the Board's development of this new guidance.

## MATERIALITY

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The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.<sup>3</sup> A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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<sup>3</sup> Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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## STANDARDS

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### SCOPE

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1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. A GPFFR in conformance with federal accounting principles should include a management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).<sup>4</sup>

### RESCISSION AND REPLACEMENT OF SFFAS 15

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

### PURPOSE OF MD&A

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6. The purpose of MD&A is to increase the understandability and usefulness of a reporting entity's 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 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*

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<sup>4</sup> See paragraph 73 of SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, for concepts about RSI.

<sup>5</sup> The *Omnibus Concepts Amendments* exposure draft proposes to rescind Statement of Federal Financial Accounting Concepts (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*.

*and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

## PRESENTING INFORMATION IN MD&A

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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. This could be accomplished by
  - a. emphasizing the vital few matters that are necessary to support the information required in *Information Discussed and Analyzed in MD&A* (paragraphs 12 and 13);
  - b. summarizing and referring to relevant detailed information from other areas of the GPFFR;
  - c. summarizing detailed information found outside of the GPFFR in other relevant reports, with a reference to the detailed report, including the level of audit assurance, if any;
  - d. limiting the repetition of content found in regulatory or compliance documents and presenting only information that is relevant to the reporting entity for the current reporting period;
10. To achieve an integrated MD&A, management should combine financial and nonfinancial 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

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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 information;
- c. the key performance<sup>6</sup> results<sup>7</sup> and the associated costs, such as providing costs to the extent possible or budgeted amounts by explaining
  - i. what performance results are key to the reporting entity;
  - ii. what it costs the agency to accomplish key performance results;
  - iii. what, if any, cost savings the reporting entity might experience with the accomplishment of key performance.
- d. the significant opportunities<sup>8</sup> identified by management to enhance key performance results, plans to leverage such opportunities, and the potential effect on financial and budgetary results of carrying out those plans;<sup>9</sup>

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<sup>6</sup> Key “performance results” refers to both performance accomplishments and performance challenges. Management uses judgment in identifying what performance results are **key** to the reporting entity.

<sup>7</sup> The consolidated financial report of the U.S. Government (CFR) is not required to provide an analysis of consolidated government-wide performance results but may refer to the availability of performance information in agency financial reports.

<sup>8</sup> For the purposes of MD&A, “significant opportunities” are anything that may have a significant positive effect on a reporting entity’s ability to achieve its performance results. Management should use judgment in determining significant opportunities.

<sup>9</sup> “Plans” are actions the reporting entity expects to execute in the future.

- e. the significant risks<sup>10</sup> identified by management that have a potentially negative effect on key performance results, plans to mitigate such risks, and the potential effect on financial and budgetary results of carrying out those plans.

13. MD&A should provide management's summary assessment of the effectiveness of the reporting entity's internal controls and financial management systems, the reporting entity's compliance with applicable laws, regulations, contracts, and grant agreements that are relevant to financial reporting. Such reporting should address internal control weaknesses, systems deficiencies, and instances of noncompliance that have a significant effect on the reporting entity's financial and performance reporting and its plans to address them.

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## EFFECTIVE DATE

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14. The requirements of this Statement are effective for reporting periods beginning after September 30, 2025. Early implementation is permitted.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled Materiality, for a detailed discussion of the materiality concepts.

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<sup>10</sup> For the purposes of MD&A, "significant risks" are the effect of significant uncertainty on a reporting entity's ability to achieve its performance results. Management should use judgment in determining significant risks.

## APPENDIX A: BASIS FOR CONCLUSIONS

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

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

### PROJECT HISTORY

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- A1. On June 8, 1999, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) published Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management’s Discussion and Analysis*. Although SFFAC 3 was a concepts statement, it included standards-like content<sup>11</sup> to guide reporting entities on what to report in management’s discussions and analysis (MD&A), along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are nonauthoritative and, therefore, not required by generally accepted accounting principles (GAAP). To require MD&A in the general purpose federal financial report (GPFFR), the Board needed authoritative guidance in a Statement of Federal Financial Accounting Standards (SFFAS).
- A2. On August 12, 1999, FASAB published SFFAS 15, *Management’s Discussions 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 this concepts statement is nonauthoritative *other accounting information* as noted in the GAAP hierarchy,<sup>12</sup> agencies relied primarily on SFFAS 15 to prepare MD&As.

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<sup>11</sup> According to the Forward in the *FASAB Handbook*, “Concepts are more general than statements on standards and do not contain specific authoritative requirements for federal agencies.” According to the Preamble to Statements of Federal Financial Accounting Concepts in the *FASAB Handbook*, concepts provide “guiding principles” for the Board to develop accounting standards. However, many of the concepts in SFFAC 3 contain standards-like language such as (1) MD&A should address; (2) MD&A should inform, and (3) MD&A should concisely explain...

<sup>12</sup> SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

- A3. During 2017 and 2018, staff conducted an online survey and in-person round tables for both the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects.<sup>13</sup> Round table feedback informed the Board that financial statement users found federal entity MD&As to be dense, duplicative, and complex. Round table participants wanted to understand the financial performance in the context of the reporting entity's financial position and condition. The MD&A included dense statistical information repeated from the Government Performance and Results Modernization Act (GPRAMA) reporting. This did not provide the financial information about performance that users wanted.
- A4. In June 2019, the Board added the MD&A project to its agenda to merge work completed by the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects. The goals of the MD&A project are to
- a. consolidate standards-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based SFFAS for preparing the MD&A;
  - b. reduce preparer burden by streamlining the MD&A;
  - c. require information about a reporting entity's financial position and condition for a financial focus instead of a statistical focus based on GPRAMA reporting; and
  - d. update guidance to discuss and analyze risk plans and mitigation to explain how the reporting entity will respond to opportunities and uncertainties.

#### DEVELOPMENT OF MD&A STANDARDS

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- A5. The Board developed these broad, principle-based MD&A standards based on four years of staff work and extensive Board deliberations, including the development of 11 objectives and a vision framework and their application through an agency pilot.
- A6. The Board identified the 11 MD&A objectives by analyzing the four FASAB reporting objectives from SFFAC 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and controls. The Board also considered the application of those objectives to SFFAC 3. See Appendix B: MD&A Objectives.

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<sup>13</sup> The project managers for the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects received the same feedback while conducting their own round tables in 2018.



- A7. The Board then drafted an MD&A vision framework based on the 11 MD&A objectives. See Appendix C: MD&A Draft Vision Framework.
- A8. The Board launched a pilot to test the MD&A objectives and framework, whereby agencies voluntarily followed both to prepare a sample MD&A.
- A9. Staff recruited 14 agency pilot participants—including 11 Chief Financial Officer (CFO) Act agencies and three significant consolidation agencies—using the following FASAB listserv call:

*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.*

- A10. Staff also recruited three additional agencies from the Small Agency Audit Pilot Working Group (hosted by Fiscal Service) to assess application of the vision framework across reporting entities of varying sizes for a total of 17 pilot agencies.
- A11. Staff conducted the pilot from January through March 2021.
- a. The 17 pilot agencies created sample MD&As based on their fiscal year (FY) 2020 financial statements, using only the MD&A objectives and framework.<sup>14</sup> As a result, the pilot agencies were able to reduce the length of their MD&A between 50–80%.
  - b. For example, the United States Department of Agriculture reduced its MD&A from 77 to 12 pages (84%) and the FTC reduced its MD&A from 46 to 13 pages (70%).
- A12. The Board concluded the pilot results were a good indicator of the potential benefits of applying principle-based guidance to MD&A preparation. The main effects were producing more effective content and reducing preparer burden.
- a. At the conclusion of the pilot, one pilot agency gave the following feedback: *“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.”*
  - b. Staff did not receive any negative feedback from the smaller pilot agencies about MD&A reporting burden. In fact, these agencies highlighted the importance of producing an MD&A that focused on transparency and

<sup>14</sup> Requirements from the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, and AGA’s Certificate of Excellence in Accountability Reporting 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.

providing users with comprehensive content about the entity's mission and accomplishments, as related to their financial position.

- A13. The pilot included 16 user reviewers, including members of the public, academia, federal workforce, and other specialties, to assess four sample MD&As against the Board's framework and objectives.
- A14. 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 (for example, COVID-19) that affected 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.
- A15. Based on the results of the MD&A pilot, the Board concluded that the MD&A objectives and framework provided a sound foundation for developing these principle-based MD&A standards.

## RESCISSION AND REPLACEMENT OF SFFAS 15

- A16. The Board deliberated extensively whether to amend or rescind and replace SFFAS 15. While both SFFAS 15 and these standards require similar information, the Board concluded that rescission and replacement is the best option because of the added value of this Statement.
- A17. This Statement adds value by providing broad, principle-based standards that merge and update relevant content from SFFAC 3 and SFFAS 15 that supports the four reporting objectives found in SFFAC 1.



- A18. The Board concluded these broad, principle-based standards address the concerns collected from the 2017-2018 outreach activities which revealed that financial statement users
- a. found the MD&A information dense, redundant, and complex and wanted easier to understand financial information about the reporting entity;
  - b. wanted to understand the financial performance in the context of the reporting entity's financial position and condition; and
  - c. wanted to remove dense statistical information repeated from the Government Performance and Results Modernization Act (GPRAMA) reporting and instead provide cost information about performance.
- A19. One factor that contributed to dense, redundant, and complex MD&A information was the required sections in SFFAS 15, paragraph 2<sup>15</sup>.
- a. The SFFAS 15 required sections consequently caused agencies to repeat the same information throughout the MD&A to ensure sufficient coverage in multiple sections.
  - b. By rescinding SFFAS 15, this Statement replaces the required sections with broad, principle-based standards.
  - c. The Board concluded these broad, principle-based standards provide reporting entities with the flexibility to determine how much information to report.
  - d. Flexibility is encouraged in the *Presenting Information in MD&A* standards with guidance on how to present a balanced, concise, integrated, and understandable MD&A.
- A20. The Board concluded that as agencies—regardless of size or consolidation status—learn how to provide balanced, concise, integrated, and understandable MD&As, preparation time will become more efficient and effective, reducing prepare burden in the long run.
- A21. Another factor that contributed to dense, redundant and complex MD&A information was that SFFAS 15 used GPRAMA terminology in the required section *Performance Goals, Objectives, and Results* for performance reporting in MD&A.
- a. This required section consequently caused agencies to include substantial GPRAMA performance information that is based in statistics rather than in budgetary or financial results.

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<sup>15</sup> SFFAS 15, paragraph 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.

- b. The Board concluded that focusing instead on key performance results will reduce redundancy and preparer burden by eliminating the need for reporting entities to prepare GPRAMA statistical information for both budgetary and financial reporting that is subject to different timeframes.
- c. These broad, principle-based standards require information on key performance results and associated costs—as available—to help users understand what the agency spent in relation to what was achieved, any cost savings for the agency, and any related significant opportunities or risks.

A22. The Board concluded that the broad, principle-based standards in *Information Discussed and Analyzed in MD&A* will

- a. help preparers to focus on identifying and explaining the underlying causes of significant changes to and trends in financial statement balances, and as a result,
- b. provide users—especially those who are not experts in federal financial matters, with easier to understand information about a reporting entity’s financial position and condition by including what information is important.

## MD&A STANDARDS

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A23. The Board presents MD&A standards in two categories 1) *Presenting Information in MD&A* and 2) *Information Discussed and Analyzed in MD&A*.

## PRESENTING INFORMATION IN MD&A

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A24. 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.

A25. The Board concluded 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 (for example, accomplishments that resulted in reduced costs); or (2) negative effect (for example, challenges that resulted in increased costs) on financial position and financial condition.

A26. The Board concluded that to achieve a **concise** MD&A, management should strive to

- a. emphasize only the vital few or most important matters that explain information required in *Information Discussed and analyzed in MD&A* standards;
- b. provide a summary of detailed information found within the audited GPFFR, but outside of MD&A, with a reference to the GPFFR section. Such as providing a reference to a note that is summarized in MD&A.
- c. provide a summary of detailed information found in other relevant reports. For example, MD&A should only summarize GPRAMA information and include a hyperlink to reference the detailed report and the level of audit assurance on that report;
- d. not repeat regulatory or compliance instructions, which is often referred to as boilerplate information, as MD&A content; and
- e. present only information that is relevant to the reporting entity for the current reporting period. For example: MD&A summarizes information necessary to understand the reason(s) for significant changes in net cost, but does not repeat language from an SFFAS or OMB A-136 instructions.

A27. The Board concluded that for an MD&A to be **integrated** it may include quantitative, qualitative, financial, and non-financial information to explain information required in *Information Discussed and Analyzed in MD&A* standards. 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. An integrated presentation is complementary to one that is balanced and concise but is a distinct quality that emphasizes effectively linking or coordinating various parts into a complete, cohesive discussion.

A28. The Board's intent is that an MD&A be **understandable** to any user who may not have an extensive knowledge of U.S. government operations nor 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

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- A29. 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. For example, management should explain the organization's mission and how and why 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.
- A30. 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.
- A31. The Board's intent is for MD&A to explain what caused significant changes in a reporting entity's financial position and condition.
  - a. Financial position is typically the account status of an entity's assets, liabilities, and equity positions as reflected on its financial statement. However, for the MD&A, the Board concluded that users will better understand the reporting entity's financial position through management's explanations about significant changes in the composition or the balances of assets, liabilities, net position; as well as costs, revenues, budgetary resources, and financing sources. This would better address users' interest in the use of the reporting entity's budget and other revenue sources to support the accomplishment of its mission(s).
  - b. Appropriate examples include language such as:

- i. "Support of pandemic-related relief efforts led to a significant decrease of stockpile materials of vaccines by \$\$\$" would be consistent with the Board's intent, whereas "inventory decreased because of a decrease in stockpile materials" would not.
- ii. "Disaster recovery efforts from natural disasters in X area of the country during 202X significantly increased the cost of X by \$\$\$" would be consistent with the Board's intent, whereas "an unexpected increase in costs deteriorated the financial position" would not.
- c. Financial condition is broader and more forward-looking than financial position.<sup>16</sup> The Board concluded that users will best understand the financial condition of reporting entities through management's explanation about significant changes in business-type activity, social insurance, long-term projections, and other relevant requirement supplementary information.

A32. The Board concluded that MD&A explains what performance results are key to the reporting entity and the associated cost.

- a. MD&A focuses on what it costs the agency and its key organizational components to pursue or to accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- 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 government-wide key performance results is not required in the MD&A of the CFR based on the following:
  - i. Paragraph 6 of SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states, "The 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, such as individual agency reports, agency websites, and the President's Budget.
  - ii. The Appendix on Reporting Entities in the CFR provides references to websites where users can review a reporting entity's MD&A discussion of key performance results and challenges.

A33. 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

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<sup>16</sup> SFFAC 1, par. 180.



implement to leverage opportunities and what are the effects on key performance or financial results?

- A34. 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?
- A35. The Board concluded 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. MD&A should explain whether the reporting entity executed and recorded transactions in accordance with budgetary and financial laws and federal accounting standards to prepare the agency financial report.

## STEWARDSHIP INVESTMENTS

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- A36. On June 11, 1996, the Board issued SFFAS 8, Supplementary Stewardship Reporting, which included a requirement to report "required supplemental stewardship information" (RSSI). On September 27, 2019, the Board issued SFFAS 57, Omnibus Amendments 2019, which rescinded the remaining RSSI requirements of SFFAS 8, eliminating the requirement for reporting RSSI.
- A37. In the SFFAS 57 basis for conclusions, paragraphs A7–A10, the Board discussed the comment letters 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.
- A38. SFFAS 57 basis for conclusions, paragraph A11, indicated that the Board would also consider whether to report stewardship investments in MD&A. 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.
- A39. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management concluded this information is relevant or significant to explaining the reporting entity's financial position or condition.

## ADDITIONAL INFORMATION

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- A40. The Board acknowledges the updates OMB has made to improve MD&A reporting in Circular A-136, Financial Reporting Requirements. However, FASAB establishes GAAP for the federal government through its pronouncements. This Statement will be level-A guidance in the GAAP hierarchy.
- A41. The Board concluded that this Statement has adapted all relevant standards-like content from SFFAC 3. Therefore, Omnibus Concepts Amendments ... amends MD&A concepts in SFFAC 2 and rescinds MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.
- A42. The Board does not intend for this Statement to affect other Statements that require information in MD&A, such as SFFAS 37, Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements. The Board concluded including the SFFAS 37 MD&A requirements in this proposal would cause duplication of information already required in MD&A.

## SUMMARY OF OUTREACH EFFORTS AND RESPONSES

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- A43. FASAB issued the exposure draft (ED), Statement of Federal Financial Accounting Standards (SFFAS), Management's Discussion and Analysis Rescinding and Replacing SFFAS 15, on September 7, 2023, with comments requested by December 7, 2023.
- A44. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. Staff also provided copies of the ED directly to agencies that were directly impacted by the particular issue in prior years.
- A45. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.
- A46. FASAB received 19 comment letters from federal entity users, federal entity preparers, federal entities (other), a professional association, and nonprofit organizations. The Board considered responses to the ED at its February 2024 meeting. The Board did not rely on the number of respondents who agreed, partially agreed or disagreed to a given position.
- A47. The Board considered each suggestion and weighed the merits of the points raised. Specific comments regarding respondent concerns and Board re-deliberations are noted in the following paragraphs as appropriate.
- A48. In response to comment letters, the Board identified and agreed to the following changes to improve the clarity of the proposal.

- a. Added language to the summary to explain the differences and benefits [value added] of these standards as compared to SFFAS 15.
- b. Updated paragraph 9.c and removed its footnote to better explain that to achieve a concise MD&A, additional information found outside the GPFFR should be summarized and referred to and include whether and what level of audit assurance there is.
- c. Removed a confusing footnote in paragraph 12. B. ii. 2.
- d. Updated a footnote to explain that short term plans referred to those plans a reporting entity would implement in the next reporting period.

A49. The Board agreed that implementation training/guidance will be considered after the final release of this Statement.

A50. The exposure draft was issued with an alternative view with concerns that SFFAS 15 could be amended instead of rescinded and replaced because there were only minor differences from SFFAS 15, and that the exposure draft was more prescriptive than SFFAS 15. The respondents' comments are summarized below.

- a. Most respondents agreed with these concerns. However, the comments were incongruent. For example, a respondent commented that it may not be necessary to rescind SFFAS 15 since there are no significant changes. The respondent also said that the proposed standards were probably needed to avoid potential issues with segregating information in the MD&A. Another respondent in agreement with the alternative view, also noted that the new standards would be beneficial. Other respondents said the proposal seems to provide more clarity on how to provide information.
- b. The Board recognizes the similarity between this standard and SFFAS 15. However, the Board decided to rescind and replace SFFAS 15 because this Statement presents a broad, principle-based approach through a comprehensive set of standards. This Statement provides flexibility and reduces preparer burden, regardless of a reporting entity's size and eliminates the SFFAS 15 requirement for sections. This Statement also merges and consolidates standards-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based MD&A standard.
- c. Another concern noted in the alternative view was that tiered reporting for MD&A should be considered.



- d. Many of the respondents agreed with a tiered approach.
  - i. The Board intends that this proposal will provide flexibility for preparing MD&A regardless of a reporting entity's size or consolidation status for the CFR.
  - ii. The Board also concluded that a tiered approach could best be addressed through a broader future technical project and not a project addressing only MD&A, but noted that tiered reporting might be difficult to achieve based on
    - 1. work done by other standard setters, such as GASB, and
    - 2. individual reporting entities potentially reporting in a different manner from the consolidated financial report of the United States Government.
- e. The alternative view also noted that training might address streamlining the MD&A.
- f. Some respondents agreed that additional staff training might benefit in streamlining the MD&A. The Board will consider implementation training/guidance after the final release of this Statement.

#### BOARD APPROVAL

A51. The Statement of Federal Financial Accounting Standards (SFFAS), *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* [TBD approved] for issuance by all members.

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## APPENDIX B: MD&A OBJECTIVES

The Board developed the MD&A standards, by first identifying objectives for what it concluded management should report in MD&A. The Board identified 11 MD&A objectives by analyzing the four reporting objectives found in SFFAC 1 and SFFAC 3: (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems, controls, and compliance.

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>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><b>Background and Rationale</b></p> <p>Paragraph 11: Questions this objective should</p>	<p>Paragraph 28: MD&amp;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. MD&amp;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. The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic financial statements.</p> <p>Paragraph 29: MD&amp;A should explain major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters</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><b>Needs of Users of Federal Financial Reports</b></p> <p>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>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. They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p> <p>Paragraphs 115: Federal financial reporting should provide information that helps the reader to determine:</p> <p>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>Paragraph 118: Sub-Objective 1B. The status of budgetary resources.</p>	<p>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>

## REPORTING OPERATING PERFORMANCE IN MD&A

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

4. MD&A should concisely explain if significant costs contributed to agency performance.
5. MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.
6. MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.

7. MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRA-MA reporting, for the entity's major program investments and the entity as a whole.

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
<p>Paragraph 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>Paragraph 126: Sub-Objective 2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>Paragraph 128: Sub-Objective 2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p>	<p>Paragraph 43: MD&amp;A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives. Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs ... Information about effectiveness is often combined with cost information to help assess "cost effectiveness."</p> <p>Paragraph 44: The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period ... 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>Paragraph 45: The summary discussion of performance in MD&amp;A should: discuss the strategies and resources the agency uses to achieve its performance goals...</p> <p>Paragraph 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>Paragraph 49: 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. 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>

## REPORTING STEWARDSHIP IN MD&A

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

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

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>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 financial conditions have changed and may change in the future.</p> <p>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, 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><b>Background and Rationale</b></p> <p>Paragraph 11: Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as: ... Did the government's financial condition improve or deteriorate? What provision was made for the future?</p> <p><b>The Needs of Users of Federal Financial Reports</b></p> <p>Paragraph 99: Citizens, Congress, executives, and program managers need information to assess the effect of the government's activities on its financial condition and that of the nation. Information is needed about the financial outlook for both the short and the long term. <i>[Staff Notes: forward looking]</i></p> <p>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>. People need to know about likely future expenditures</p>	<p>Paragraph 14: Regarding the financial statements, MD&amp;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?<sup>5</sup> How did this come about? What were the significant variations: from prior years? from the budget?<sup>6</sup> 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 by factors outside the reporting entity's control, including actions by Congress.)</p> <p><sup>5</sup> The 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><sup>6</sup> Management should use its judgment to decide what variances are relevant for MD&amp;A. It will not always be essential or appropriate to discuss all variances.</p>



Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>for [example] cleaning up nuclear weapons sites and military bases. 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>Paragraph 102: Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p> <p><b>Objective 3</b></p> <p>Paragraph 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions.</p> <p>Paragraph 135: <b><u>Federal financial reporting should provide information that helps the reader to determine:</u></b></p> <p>Paragraph 136: <b>Sub-Objective 3A. Whether the government's financial position improved or deteriorated over the period.</b></p> <p>Paragraph 137: Assessing whether the government's financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.</p> <p>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>Paragraph 139: Sub-objective 3B. <b>Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</b></p> <p>Paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government. Users of financial reports also want help in assessing the likelihood that the government will continue to provide</p>	<p><b>Discussion and Analysis of the Financial Statements</b></p> <p>Paragraph 26: <u>Financial Results, Position and Condition</u>—MD&amp;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. 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; 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>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. Not all changes that are material to the GPFFR are sufficiently important to be included in MD&amp;A. A line-by-line analysis of the financial statements is not generally appropriate. Instead, MD&amp;A should summarize the most important items, explain the relevant causes and effects, and place them in context.</p> <p>Paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u>—MD&amp;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>Paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u>—The discussion of these current factors should go beyond a mere description of existing conditions, such as</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.</p> <p>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>Paragraph 143: Sub-objective 3C. <b>Whether government operations have contributed to the nation's current and future well-being.</b></p> <p>Paragraph 144: Objective 3, in general, and subobjective 3C, in particular, imply a concern with "financial condition," as well as "financial position." Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself. For example, reports intended to help meet this objective might address users' needs for information about investments in (or expenditures for) research and development, military readiness, and education; changes in the service potential of infrastructure assets; spending for consumption relative to investments; opportunities for growth-stimulating activities; and the likelihood of future inflation.</p> <p>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. Information on trends in total national wealth and income is also important.</p>	<p>demographic characteristics, claims, deferred maintenance, commitments undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</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.

<b>Systems and Control Reporting Objective Concepts from SFFAC 1</b>	<b>Systems and Controls Reporting Objective Concepts from SFFAC 3</b>
<p>Paragraph 11: Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as: ... 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>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><b>The Needs of Users of Federal Financial Reports</b></p> <p>Paragraph 103: Users at all levels need information on internal controls and the adequacy of financial management systems. Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government. They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended. 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. 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>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>Paragraph 15: Regarding systems and controls, MD&amp;A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term “management controls”) are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.</p> <p>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. 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>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. By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity’s management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws. For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements. 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. MD&amp;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>



Systems and Control Reporting Objective Concepts from SFFAC 1	Systems and Controls Reporting Objective Concepts from SFFAC 3
<p>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><b>Discussion and Analysis of Systems, Controls and Legal Compliance</b></p> <p>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 intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&amp;A should include a concise description of any major problems in these areas and of the corrective action taken or planned.</p>

## APPENDIX C: DRAFT MD&A VISION FRAMEWORK

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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

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CFO	Chief Financial Officer
CFR	Consolidated Financial Report of the United States Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
GPRAMA	Government Performance and Results Modernization Act
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
RSI	Required Supplemental Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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## **ATTACHMENT 2**

# **Draft Proposed SFFAS Management's Discussion and Analysis Rescinding and Replacing SFFAS 15 – Tracked Version –**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING AND REPLACING SFFAS 15

Statement of Federal Financial Accounting Standards

**DRAFT PROPOSED STATEMENT**

~~XX~~, September XX, 2024

Public comments are not requested on this draft

## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
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## SUMMARY

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This Statement updates the guidance for management's discussion and analysis (MD&A).<sup>1</sup> In 1999, the Board first published conceptual guidance and standards for preparing the MD&A 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 Discussions and Analysis*.

The Board intended for management to refer to both SFFAC 3 and SFFAS 15 to prepare the 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 SFFAC 3 was not authoritative.<sup>1</sup> This resulted in segregating information into sections that often resulted in duplicating content throughout MD&A, which was difficult for users to follow and understand.

This Statement ~~provides a principle-based~~<sup>2</sup> ~~approach that~~ merges and updates relevant content from SFFAC 3 and SFFAS 15 ~~and based on s-consistent with~~ FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls.<sup>3</sup>

~~This statement is 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~~<sup>4</sup> ~~laws and regulations.~~

~~While required information is similar to SFFAS 15, these updated standards are intended to provide more flexibility and reduce preparer burden because they do not include prescriptive sections that cause reporting entities to repeat information in multiple places within MD&A. These broad, principle-based standards should guide management in streamlining content that is easy for a reader to understand the financial position, condition, and operating performance of the reporting entity.~~

This Statement adds value by

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<sup>1</sup> See basis for conclusions, paragraphs A1-A4, for a complete history.

<sup>2</sup> ~~Principle-based approach refers to relying on high-level, broadly stated principles rather than detailed, prescriptive rules.~~

<sup>3</sup> See basis for conclusions, paragraphs A5-A14 and appendices B: *MD&A Objectives* and C: *Draft MD&A Vision Framework* for details about the Board's development of this new guidance.

<sup>4</sup> ~~Applicable laws may include the Federal Managers Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and the Federal Information Security Management Act (FISMA).~~



- providing a concise set of principle-based standards that will guide management in providing a discussion and analysis of the reporting entity's financial position and condition that is useful for all users, especially those who are not experts in federal government financial matters;
- encouraging flexibility for how management can efficiently and effectively prepare MD&A content thus reducing a reporting entity's preparation efforts in the long run; and
- guiding management in how to prepare a balanced, concise, integrated, and understandable MD&A instead of duplicating information across required sections.

This Statement rescinds and replaces SFFAS 15, *Management's Discussions and Analysis*.

## MATERIALITY

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The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.<sup>5</sup> A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

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<sup>5</sup> Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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## PROPOSED STANDARDS

### SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. A GPFFR in conformance with federal accounting principles should include a management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).<sup>6</sup>

### RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement ~~proposes to rescind~~ SFFAS 15, *Management's Discussions and Analysis*.
5. This Statement ~~proposes to replace~~ SFFAS 15 with the ~~proposed~~ management's discussion and analysis (MD&A) standards in this Statement.<sup>7</sup>

### PURPOSE OF MD&A

6. The purpose of MD&A is to increase the understandability and usefulness of a reporting entity's 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*

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

<sup>7</sup> The *Omnibus Concepts Amendments* exposure draft proposes to rescind Statement of Federal Financial Accounting Concepts (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*.

and Analyzed in MD&A explains **what** types of information management should include in MD&A.

## PRESENTING INFORMATION IN MD&A

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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 ~~only include~~ summarize information that is sufficient to meet the needs of its users. ~~by~~ This could be accomplished by
  - a. emphasizing the vital few matters that are necessary to support related to the information required in ~~paragraphs 12 and 13~~ Information Discussed and Analyzed in MD&A ~~(paragraphs 12 and 13);~~
  - b. summarizing and referring to relevant detailed information from other areas of the GPFFR;
  - c. summarizing detailed information found outside of the GPFFR in other relevant reports, with a reference to the detailed report, including the level of audit assurance, if any; summarizing and referring to referencing additional detailed information from other federal government documents outside of the GPFFR with an explanation as to whether and what level of audit assurance there is; and
  - d. limiting the repetition of content found in regulatory or compliance documents and presenting only information that is relevant to the reporting entity for the current reporting period; limiting the use of boilerplate language by only presenting information that is relevant to the reporting entity's current financial report.
10. To achieve an integrated MD&A, management should combine financial and nonfinancial 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

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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 information;
- c. the key performance<sup>8</sup> results<sup>9</sup> and the associated costs, such as providing costs to the extent possible or budgeted amounts by explaining
  - i. what performance results are key to the reporting entity;
  - ii. what it costs the agency to accomplish key performance results;
  - iii. what, if any, cost savings the reporting entity might experience with the accomplishment of key performance.

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<sup>8</sup> Key “performance results” refers to both performance accomplishments and performance challenges. Management uses judgment in identifying what performance results are **key** to the reporting entity.

<sup>9</sup> The consolidated financial report of the U.S. Government (CFR) is not required to provide an analysis of consolidated government-wide performance results but may refer to the availability of performance information in agency financial reports.

d. the significant opportunities<sup>10</sup> identified by management to enhance key performance results, plans to leverage such opportunities, and the potential effect on financial and budgetary results of carrying out those plans;<sup>11</sup>

e. the significant risks<sup>12</sup> identified by management that have a potentially negative effect on key performance results, plans to mitigate such risks, and the potential effect on financial and budgetary results of carrying out those plans.

e.

13. MD&A should provide management's summary assessment of the effectiveness of the reporting entity's internal controls and financial management systems, the reporting entity's compliance with applicable laws, regulations, contracts, and grant agreements that are relevant to financial reporting. Such reporting should address internal control weaknesses, systems deficiencies, and instances of noncompliance 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, 2025. Early implementation is permitted.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled Materiality, for a detailed discussion of the materiality concepts.

<sup>10</sup> For the purposes of MD&A, "significant opportunities" are anything that may have a significant positive effect on a reporting entity's ability to achieve its performance results. Management should use judgment in determining significant opportunities.

<sup>11</sup> "Plans" are actions the reporting entity expects to execute in the future.

<sup>12</sup> For the purposes of MD&A, "significant risks" are the effect of significant uncertainty on a reporting entity's ability to achieve its performance results. Management should use judgment in determining significant risks.

## APPENDIX A: BASIS FOR CONCLUSIONS

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

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

### PROJECT HISTORY

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- A1. On June 8, 1999, the Federal Accounting Standards Advisory Board (FASAB or “the Board”) published Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management’s Discussion and Analysis*. Although SFFAC 3 was a concepts statement, it included standards-like content<sup>13</sup> to guide reporting entities on what to report in management’s discussions and analysis (MD&A), along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are nonauthoritative and, therefore, not required by generally accepted accounting principles (GAAP). To require MD&A in the general purpose federal financial report (GPFFR), the Board needed authoritative guidance in a Statement of Federal Financial Accounting Standards (SFFAS).
- A2. On August 12, 1999, FASAB published SFFAS 15, *Management’s Discussions 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 this concepts statement is nonauthoritative *other accounting information* as noted in the GAAP hierarchy,<sup>14</sup> agencies relied primarily on SFFAS 15 to prepare MD&As.

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<sup>13</sup> According to the Forward in the *FASAB Handbook*, “Concepts are more general than statements on standards and do not contain specific authoritative requirements for federal agencies.” According to the Preamble to Statements of Federal Financial Accounting Concepts in the *FASAB Handbook*, concepts provide “guiding principles” for the Board to develop accounting standards. However, many of the concepts in SFFAC 3 contain standards-like language such as (1) MD&A should address; (2) MD&A should inform, and (3) MD&A should concisely explain...

<sup>14</sup> SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

- A3. During 2017 and 2018, staff conducted an online survey and in-person round tables for both the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects.<sup>15</sup> Round table feedback informed the Board that financial statement users found federal entity MD&As to be dense, duplicative, and complex. Round table participants wanted to understand the financial performance in the context of the reporting entity's financial position and condition. The MD&A included dense statistical information repeated from the Government Performance and Results Modernization Act (GPRAMA) reporting. This did not provide the financial information about performance that users wanted.
- A4. In June 2019, the Board added the MD&A project to its agenda to merge work completed by the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects. The goals of the MD&A project are to
- a. consolidate standards-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based SFFAS for preparing the MD&A;
  - b. reduce preparer burden by streamlining the MD&A;
  - c. require information about a reporting entity's financial position and condition for a financial focus instead of a statistical focus based on GPRAMA reporting; and
  - d. update guidance to discuss and analyze risk plans and mitigation to explain how the reporting entity will respond to opportunities and uncertainties.

#### DEVELOPMENT OF MD&A STANDARDS

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A5. The Board developed these broad, principle-based MD&A standards based on four years of staff work and extensive Board deliberations, including the development of 11 objectives and a vision framework and their application through an agency pilot.

While both SFFAS 15 and these standards require similar information, the Board believes that the standards improve the effectiveness and efficiency of MD&A reporting in the following ways:

~~A5. The Board developed MD&A standards by first identifying objectives for what it believes management should report in MD&A.~~

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<sup>15</sup> The project managers for the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects received the same feedback while conducting their own round tables in 2018.

- A6. The Board identified the 11 MD&A objectives by analyzing the four FASAB reporting objectives from SFFAC 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and controls. The Board also considered the application of those objectives to SFFAC 3. See Appendix B: MD&A Objectives.
- A7. The Board then drafted an MD&A vision framework based on the 11 MD&A objectives. See Appendix C: MD&A Draft Vision Framework.
- A8. The Board launched a pilot to test the MD&A objectives and framework, whereby agencies voluntarily followed both to prepare a sample MD&A.
- A9. Staff recruited 14 agency pilot participants—including 11 Chief Financial Officer (CFO) Act agencies and three significant consolidation agencies—using the following FASAB listserv call:

*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.*

- A10. Staff also recruited three additional agencies from the Small Agency Audit Pilot Working Group (hosted by Fiscal Service) to assess application of the vision framework across reporting entities of varying sizes for a total of 17 pilot agencies.
- A11. Staff conducted the pilot from January through March 2021.
- a. The 17 pilot agencies created sample MD&As based on their fiscal year (FY) 2020 financial statements, using only the MD&A objectives and framework.<sup>16</sup> As a result, the pilot agencies were able to reduce the length of their MD&A between 50–80%.
- a.b. For example, the United States Department of Agriculture reduced its MD&A from 77 to 12 pages (84%) and the FTC reduced its MD&A from 46 to 13 pages (70%).

A12. The Board believesconcluded the pilot results were a good indicator of the potential benefits of applying principle-based guidance to MD&A preparation. The main effects were producing more effective content and reducing preparer burden.

i.a. At the conclusion of the pilot, one pilot agency gave the following feedback:  
*“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*

<sup>16</sup> Requirements from the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, and AGA’s Certificate of Excellence in Accountability Reporting 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.

*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.b. Staff did not receive any negative feedback from the smaller pilot agencies about MD&A reporting burden. In fact, these agencies highlighted the importance of producing an MD&A that focused on transparency and providing users with comprehensive content about the entity’s mission and accomplishments, as related to their financial position.

A12.A13. The pilot included 16 user reviewers, including members of the public, academia, federal workforce, and other specialties, to assess four sample MD&As against the Board’s framework and objectives.

A13.A14. 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 (for example, COVID-19) that affected 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.

A15. Based on the results of the MD&A pilot, the Board concluded that the MD&A objectives and framework provided a sound foundation for developing these principle-based MD&A standards.

#### MD&A STANDARDS

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~~A14.A1. The Board developed the broad principle-based MD&A standards based on four years of staff work and extensive Board deliberations, including the development of objectives and a vision framework and their application through an agency pilot. While both SFFAS 15 and these standards require similar information, the Board believes that the standards improve the effectiveness and efficiency of MD&A reporting in the following ways:~~



- ~~a. These standards eliminate the prescriptive MD&A sections from SFFAS 15, thereby enhancing flexibility, eliminating redundancy, and reducing burden.~~
- ~~b. These standards do not include references to GPRAMA, further mitigating agency burden stemming from redundant budget and financial reporting. Instead, the Board intends that these standards will provide the effective integration of costs and performance results to provide a more complete picture of a reporting entity's operating and financial performance.~~
- ~~c.a. These standards provide for more effective and informative analysis of financial position by requiring 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."<sup>17</sup> Alternatively, SFFAS 15 only requires "forward looking information regarding the possible future effects of the most important existing, currently known ... trends."<sup>18</sup>~~
- ~~d.a. These standards provide broad, principle based guidance for how to present a balanced (par. 8, A18), concise (par. 9, A19), integrated (par. 10, A20), and understandable (par. 11, A21) MD&A. This proposal represents an improvement over SFFAS 15 by providing a more complete, definitive, and organized discussion of "how" an agency should approach preparing MD&A content. This includes: (1) explicitly referencing the importance of "integrated" presentation to form a complete discussion (see par. A20) and (2) more effectively organizing and presenting the comparative information as opposed to the scattered and disconnected approach in SFFAS 15. For example, the following references are made in SFFAS 15:~~
  - ~~1. "MD&A should provide a clear and concise description of..." (par. 1)~~
  - ~~2.1. "Because MD&A must be concise if it is to be useful..." (par. 5)~~
  - ~~3.1. "MD&A should deal with the 'vital few' matters..." (par. 6)~~

~~THE BOARD PRESENTS THESE STANDARDS IN TWO CATEGORIES TO LEVERAGE THESE IMPROVEMENTS AND FACILITATE PREPARATION OF MD&A: 1) PRESENTING INFORMATION IN MD&A AND 2) INFORMATION DISCUSSED AND ANALYZED IN MD&A.~~

## RESCISSION AND REPLACEMENT OF SFFAS 15

A16. The Board extensively deliberated extensively whether to amend or rescind and replace SFFAS 15. While both SFFAS 15 and these standards require similar information, the Board concluded that rescission and replacement is the best option because of the added value of this Statement.

<sup>17</sup> ED, paragraph 12.b.ii.

<sup>18</sup> SFFAS 15, pa. 3.

A17. This Statement adds value by providing broad, principle-based standards that merge and update relevant content from SFFAC 3 and SFFAS 15 that supports the four reporting objectives found in SFFAC 1.

A18. The Board concluded these broad, principle-based standards address the concerns collected from the 2017-2018 outreach activities which revealed that financial statement users

- a. found the MD&A information dense, redundant, and complex and wanted easier to understand financial information about the reporting entity;
- b. wanted to understand the financial performance in the context of the reporting entity's financial position and condition; and
- c. wanted to remove dense statistical information repeated from the Government Performance and Results Modernization Act (GPRAMA) reporting and instead provide cost information about performance.

A19. One factor that contributed to dense, –redundant, and complex MD&A information was the required sections in SFFAS 15, paragraph 2<sup>19</sup>.

- a. The SFFAS 15 –required sections consequently caused agencies to repeat the same information throughout the MD&A to ensure sufficient coverage in multiple sections.
- b. By rescinding SFFAS 15, this Statement replaces the required sections with broad, principle-based standards.
- c. The Board concluded these broad, principle-based standards provide reporting entities with the flexibility to determine how much information to report.
- d. Flexibility is encouraged in the *Presenting Information in MD&A* standards with guidance on how to present a balanced, concise, integrated, and understandable MD&A.

A20. The Board concluded that as agencies—regardless of size or consolidation status—learn how to provide balanced, concise, integrated, and understandable MD&As, preparation time will become more efficient and effective, reducing prepare burden in the long run.

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<sup>19</sup> SFFAS 15, paragraph 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.

A21. Another factor that contributed to dense, redundant and complex MD&A information was that SFFAS 15 used GPRAMA terminology in the required section *Performance Goals, Objectives, and Results* for performance reporting in MD&A.

- a. This required section consequently caused agencies to include substantial GPRAMA performance information that is based in statistics rather than in budgetary or financial results.
- b. The Board concluded that focusing instead on key performance results will reduce redundancy and preparer burden by eliminating the need for reporting entities to prepare GPRAMA statistical information for both budgetary and financial reporting that is subject to different timeframes.
- c. These broad, principle-based standards require information on key performance results and associated costs—as available—to help users understand what the agency spent in relation to what was achieved, any cost savings for the agency, and any related significant opportunities or risks.

A22. The Board concluded that the broad, principle-based standards in *Information Discussed and Analyzed in MD&A* will

- a. help preparers to focus on identifying and explaining the underlying causes of significant changes to and trends in financial statement balances, and as a result,
- b. provide users—especially those who are not experts in federal financial matters,—with easier to understand information about a reporting entity's financial position and condition by including what information is important.
- a. with easier to understand information about a reporting entity's financial position and condition by including what information is important. These standards provide for more effective and informative analysis of financial position by requiring 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.”<sup>20</sup> Alternatively, SFFAS 15 only requires “forward-looking information regarding the possible future effects of the most important existing, currently known ... trends.”<sup>21</sup>

—These standards provide broad, principle-based guidance for how to present a balanced (par. 8, A18), concise (par. 9, A19), integrated (par. 10, A20), and understandable (par. 11, A21) MD&A. This proposal represents an improvement over SFFAS 15 by providing a more complete, definitive, and

<sup>20</sup> ED, paragraph 12.b.ii.

<sup>21</sup> SFFAS 15, pa. 3.

organized discussion of “how” an agency should approach preparing MD&A content. This includes: (1) explicitly referencing the importance of “integrated” presentation to form a complete discussion (see par. A20) and (2) more effectively organizing and presenting the comparative information as opposed to the scattered and disconnected approach in SFFAS 15. For example, the following references are made in SFFAS 15:

- “MD&A should provide a clear and concise description of...” (par. 1)
- “Because MD&A must be concise if it is to be useful...” (par. 5)
- “MD&A should deal with the ‘vital few’ matters...” (par. 6)

## MD&A STANDARDS

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A23. The Board presents these MD&A standards in two categories to leverage these improvements and facilitate preparation of MD&A: 1) *Presenting Information in MD&A* and 2) *Information Discussed and Analyzed in MD&A*.

~~A15.~~

## PRESENTING INFORMATION IN MD&A

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A16-A24. 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-A25. The Board ~~believes~~concluded 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 (for example, accomplishments that resulted in reduced costs); or (2) negative effect (for example, challenges that resulted in increased costs) on financial position and financial condition.

A18-A26. The Board ~~believes~~concluded that to achieve a **concise** MD&A, management should strive to

- a. ~~emphasize~~ only the vital few or most important matters for that explain information required in *Information Discussed and analyzed in MD&A* standards;
- b. ~~provide a information required in paragraphs 12 and 13, Ssummary of rize~~ detailed information found within the audited GPFFR, but outside of MD&A, with a references to the GPFFR section. Such as providing a reference to a note that is summarized in MD&A.
- c. ~~provide a summary of detailed information found in another other relevant reports.~~ For example, MD&A should only summarize GPRAMA information and include a hyperlink to reference the detailed report and any the level of audit assurance on that report; and
- d. ~~not Limit boilerplate language repeat regulatory or compliance instructions, which is often referred to as boilerplate information, as MD&A content; and~~

~~A19. present only information that is relevant to the reporting entity for the current reporting period. and only presenting information that is 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., but does not repeat language from an SFFAS or OMB A-136 instructions.~~

~~—~~

~~e. MD&A provides a brief discussion about the reporting entity's operating performance with reference to the detailed information found in the GPRAMA report and what, if any, level of audit assurance there is for that report.~~

**A20.A27.** The Board ~~concluded that for an MD&A to be believes an integrated MD&A it may include incorporates~~ **integrated** quantitative, qualitative, financial, and non-financial information ~~across various elements to explain information required in *Information Discussed and Analyzed in MD&A* standards.~~ 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. An integrated presentation is complementary to one that is balanced and concise but is a distinct quality that emphasizes effectively linking or coordinating various parts into a complete, cohesive discussion.



**A21.A28.** The Board's intent is that an MD&A be **understandable** to any user who may not have an extensive knowledge of U.S. government operations nor 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

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**A22.A29.** 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. For example, management should explain the organization's mission and how and why 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.

**A23.A30.** 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.

**A24.A31.** The Board's intent is for MD&A to explain what caused significant changes in a reporting entity's financial position and condition.

- a. Financial position is typically the account status of an entity's assets, liabilities, and equity positions as reflected on its financial statement. However, for the MD&A, the Board **believesconcluded** that users will better understand the reporting entity's financial position through management's



explanations about significant changes in the composition or the balances of assets, liabilities, net position; as well as costs, revenues, budgetary resources, and financing sources. This would better address users' interest in the use of the reporting entity's budget and other revenue sources to support the accomplishment of its mission(s).

- b. Appropriate examples include language such as:
  - i. "Support of pandemic-related relief efforts led to a significant decrease of stockpile materials of vaccines by \$\$\$" would be consistent with the Board's intent, whereas "inventory decreased because of a decrease in stockpile materials" would not.
  - ii. "Disaster recovery efforts from natural disasters in X area of the country during 202X significantly increased the cost of X by \$\$\$" would be consistent with the Board's intent, whereas "an unexpected increase in costs deteriorated the financial position" would not.
- c. Financial condition is broader and more forward-looking than financial position.<sup>22</sup> The Board ~~believes~~concluded that users will best understand the financial condition of reporting entities through management's explanation about significant changes in business-type activity, social insurance, long-term projections, and other relevant requirement supplementary information.

~~A25-A32.~~ The Board ~~believes~~concluded that MD&A explains what performance results are key to the reporting entity and the associated cost.

- a. MD&A focuses on what it costs the agency and its key organizational components to pursue or to accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- 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 government-wide key performance results is not required in the MD&A of the CFR based on the following:
  - i. Paragraph 6 of SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states, "The 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, such as individual agency reports, agency websites, and the President's Budget.

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<sup>22</sup> SFFAC 1, par. 180.

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

~~A26.~~A33. 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?

~~A27.~~A34. 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?

~~A28.~~A35. The Board ~~believes~~concluded 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. MD&A should explain whether the reporting entity executed and recorded transactions in accordance with budgetary and financial laws and federal accounting standards to prepare the agency financial report.

## STEWARDSHIP INVESTMENTS

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~~A29.~~ On June 11, 1996, the Board issued SFFAS 8, Supplementary Stewardship Reporting, which included a requirement to report "required supplemental stewardship information" (RSSI). On September 27, 2019, the Board issued SFFAS 57, Omnibus Amendments 2019, which rescinded the remaining RSSI requirements of SFFAS 8, eliminating the requirement for reporting RSSI.

~~A30.~~A36.

~~A31.~~A37. In the SFFAS 57 basis for conclusions, paragraphs A7–A10, the Board discussed the comment letters 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.

~~A32.~~A38. SFFAS 57 basis for conclusions, paragraph A11, indicated that the Board would also consider whether to report stewardship investments in MD&A. 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.

~~A33-A39.~~ This decision does not preclude preparers from reporting stewardship investment information in MD&A if management ~~believes~~concluded this information is relevant or significant to explaining the reporting entity's financial position or condition.

## RESCISSION AND REPLACEMENT OF SFFAS 15ADDITIONAL INFORMATION

~~A34. The Board rescinds the MD&A standards in SFFAS 15 and replace them with this proposal.~~

~~A35. The Board extensively deliberated whether to amend or rescind and replace SFFAS 15. The Board believes that rescission and replacement is the better option as the proposal presents a broad, principle-based approach through a comprehensive set of standards. These standards merge and update relevant content from SFFAC 3 and SFFAS 15, while maintaining consistency with SFFAC 4.~~

~~A36. The Board believes this broad, principle-based approach addresses the concerns collected from 2017-2018 through an online survey and round table discussions, which precipitated the initiation of the MD&A project in 2019.~~

~~A37. The 2017-2018 outreach activities revealed that agency MD&A content was typically very dense and redundant, affecting users' ability to easily understand the agency's financial position and condition.~~

~~A38. One observed cause of redundancy was SFFAS 15's reliance on prescriptive section requirements (par. 2):~~

~~A39. 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.~~

~~— Consequently, agencies repeated the same, redundant information throughout the MD&A in the different sections to ensure sufficient coverage in each section.~~

~~A40. By eliminating the SFFAS 15 requirement for prescriptive MD&A sections, the Board intends that this proposal will add clarity for the user, while providing flexibility and reducing burden for the preparer, regardless of a reporting entity's size or consolidation status for the CFR.~~

~~A41. MD&A redundancy also occurred because of SFFAS 15's references to GPRAMA terminology, namely the section titled Performance Goals, Objectives, and Results. Consequently, agencies have included substantial GPRAMA performance information with little or no connection to budgetary or financial results.~~

~~A42. By removing references to GPRAMA terminology, the Board believes this proposal will reduce redundancy by eliminating the need for reporting entities to prepare and coordinate redundant program performance content (for budgetary and financial reporting) subject to different timeframes.~~

~~A43. The Board believes these broad, principle-based standards will facilitate preparation of MD&A content that places greater emphasis on the relationship between the costs of an agency and its key organizational components and key performance results, including whether these accomplishments resulted in cost savings for the agency.~~

~~A44.~~A40. The Board acknowledges the updates OMB has made to improve MD&A reporting in Circular A-136, Financial Reporting Requirements. However, FASAB establishes GAAP for the federal government through its pronouncements. This proposal-Statement will be level-A guidance in the GAAP hierarchy.

~~A45. The Board believes rescinding and replacing SFFAS 15 provides broad principle-based, comprehensive standards to prepare MD&A content 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.~~

~~A46.~~A41. The Board ~~believes~~concluded that this Statement has adapted all relevant standards-like content from SFFAC 3. Therefore, Omnibus Concepts Amendments ... will amends MD&A concepts in SFFAC 2 and rescinds MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.

~~A47.~~A42. The Board does not intend for this proposal-Statement to affect other Statements that require information in MD&A, such as SFFAS 37, Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements. The Board ~~believes~~concluded including the SFFAS 37 MD&A requirements in this proposal would cause duplication of information already required in MD&A.

## SUMMARY OF OUTREACH EFFORTS AND RESPONSES

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~~A48.~~A43. FASAB issued the exposure draft (ED), Statement of Federal Financial Accounting Standards (SFFAS), Management's Discussion and Analysis Rescinding and Replacing SFFAS 15, on September 7, 2023, with comments requested by December 7, 2023.

~~A49.~~

~~A50.~~A44. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also

provided news releases to its press contacts, including various news organizations and committees of professional associations generally commenting on EDs in the past. Staff also provided copies of the ED directly to agencies that were directly impacted by the particular issue in prior years.

~~A51-A45.~~ To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

~~A52-A46.~~ FASAB received 19 comment letters from federal entity users, federal entity preparers, federal entities (other), a professional association, and nonprofit organizations. The Board considered responses to the ED at its February 2024 meeting. The Board did not rely on the number of respondents who agreed, partially agreed or disagreed to a given position.

~~A53-A47.~~ The Board considered each suggestion and weighed the merits of the points raised. Specific comments regarding respondent concerns and Board re-deliberations are noted in the following paragraphs as appropriate.

~~A54-A48.~~ In response to comment letters, the Board identified and agreed to the following changes to improve the clarity of the proposal.

- a. Added language to the summary to explain the differences and benefits [value added]~~new benefits~~ of these ~~proposed~~ standards as compared to SFFAS 15.
- b. Updated paragraph 9.c and removed its footnote to better explain that to achieve a concise MD&A, additional information found outside the GPFFR should be summarized and referred to and include whether and what level of audit assurance there is.
- c. Removed a confusing footnote in paragraph 12. B. ii. 2.
- d. Updated a footnote to explain that short term plans referred to those plans a reporting entity would implement in the next reporting period.

~~A55-A49.~~ The Board agreed that implementation training/guidance will be considered after the final release of this Statement.

~~A56-A50.~~ The exposure draft was issued with an alternative view with concerns that SFFAS 15 could be amended instead of rescinded and replaced because there were only minor differences from SFFAS 15, and that the exposure draft was more prescriptive than SFFAS 15. The respondents' comments are summarized below.

- a. Most respondents agreed with these concerns. However, the comments were incongruent. For example, a respondent commented that it may not be



necessary to rescind SFFAS 15 since there are no significant changes. The respondent also said that the proposed standards were probably needed to avoid potential issues with segregating information in the MD&A. Another respondent in agreement with the alternative view, also noted that the new standards would be beneficial. Other respondents said the proposal seems to provide more clarity on how to provide information.

- b. The Board recognizes the similarity between this standard and SFFAS 15. However, the Board decided to rescind and replace SFFAS 15 because ~~the~~ this new Statement presents a broad, principle-based approach through a comprehensive set of standards. This Statement provides flexibility and reduces preparer burden, regardless of a reporting entity's size and eliminates the SFFAS 15 requirement for ~~prescriptive MD&A~~ sections. This Statement also merges and consolidates standards-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based MD&A standard.
- c. Another concern noted in the alternative view was that tiered reporting for MD&A should be considered.
- d. Many of the respondents agreed with a tiered approach.
  - i. The Board intends that this proposal will provide flexibility for preparing MD&A regardless of a reporting entity's size or consolidation status for the CFR.
  - ii. The Board also ~~believes~~ concluded that a tiered approach could best be addressed through a broader future technical project and not a project addressing only MD&A, but noted that tiered reporting might be difficult to achieve based on
    - 1. work done by other standard setters, such as GASB, and
    - 2. individual reporting entities potentially reporting in a different manner from the consolidated financial report of the United States Government.
- e. The alternative view also noted that training might address streamlining the MD&A.



- f. Some respondents agreed that additional staff training might benefit in streamlining the MD&A. The Board will consider implementation training/guidance after the final release of this Statement.

#### BOARD APPROVAL

~~A57.A51.~~ The Statement of Federal Financial Accounting Standards (SFFAS), *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* [TBD approved] for issuance by all members.

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## APPENDIX B: MD&A OBJECTIVES

The Board developed the MD&A standards, by first identifying objectives for what it believes concluded management should report in MD&A. The Board identified 11 MD&A objectives by analyzing the four reporting objectives found in SFFAC 1 and SFFAC 3: (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems, controls, and compliance.

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>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><b>Background and Rationale</b></p> <p>Paragraph 11: Questions this objective should</p>	<p>Paragraph 28: MD&amp;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. MD&amp;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. The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic financial statements.</p> <p>Paragraph 29: MD&amp;A should explain major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters</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><b>Needs of Users of Federal Financial Reports</b></p> <p>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>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. They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p> <p>Paragraphs 115: Federal financial reporting should provide information that helps the reader to determine:</p> <p>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>Paragraph 118: Sub-Objective 1B. The status of budgetary resources.</p>	<p>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>

## REPORTING OPERATING PERFORMANCE IN MD&A

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

4. MD&A should concisely explain if significant costs contributed to agency performance.
5. MD&A should concisely explain reasons for significant changes in net cost from the prior year and any significant cost trends over multiple years.
6. MD&A should provide an integrated discussion and analysis of the entity's mission, organization, budget, cost, and performance, for the entity's significant major program investments and the entity as a whole, including what types of resources the entity used and what the entity achieved during the reporting period.

7. MD&A should provide a concise/balanced discussion/summary of significant financial and non-financial operating performance information, including electronic references to legislative performance framework documents, such as GPRA-MA reporting, for the entity's major program investments and the entity as a whole.

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
<p>Paragraph 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>Paragraph 126: Sub-Objective 2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>Paragraph 128: Sub-Objective 2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p>	<p>Paragraph 43: MD&amp;A should objectively discuss the entity's program results and indicate the extent to which its programs are achieving their intended objectives. Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs ... Information about effectiveness is often combined with cost information to help assess "cost effectiveness."</p> <p>Paragraph 44: The entity's financial performance should be summarized to provide significant indicators of its financial operations for the reporting period ... 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>Paragraph 45: The summary discussion of performance in MD&amp;A should: discuss the strategies and resources the agency uses to achieve its performance goals...</p> <p>Paragraph 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>Paragraph 49: 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. 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>

## REPORTING STEWARDSHIP IN MD&A

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

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

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>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 financial conditions have changed and may change in the future.</p> <p>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, 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><b>Background and Rationale</b></p> <p>Paragraph 11: Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as: ... Did the government's financial condition improve or deteriorate? What provision was made for the future?</p> <p><b>The Needs of Users of Federal Financial Reports</b></p> <p>Paragraph 99: Citizens, Congress, executives, and program managers need information to assess the effect of the government's activities on its financial condition and that of the nation. Information is needed about the financial outlook for both the short and the long term. <i>[Staff Notes: forward looking]</i></p> <p>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>. People need to know about likely future expenditures</p>	<p>Paragraph 14: Regarding the financial statements, MD&amp;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?<sup>5</sup> How did this come about? What were the significant variations: from prior years? from the budget?<sup>6</sup> 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 by factors outside the reporting entity's control, including actions by Congress.)</p> <p><sup>5</sup> The 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><sup>6</sup> Management should use its judgment to decide what variances are relevant for MD&amp;A. It will not always be essential or appropriate to discuss all variances.</p>



Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>for [example] cleaning up nuclear weapons sites and military bases. 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>Paragraph 102: Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p> <p><b>Objective 3</b></p> <p>Paragraph 135: This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions.</p> <p>Paragraph 135: <b><u>Federal financial reporting should provide information that helps the reader to determine:</u></b></p> <p>Paragraph 136: <b>Sub-Objective 3A. Whether the government's financial position improved or deteriorated over the period.</b></p> <p>Paragraph 137: Assessing whether the government's financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.</p> <p>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>Paragraph 139: Sub-objective 3B. <b>Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</b></p> <p>Paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government. Users of financial reports also want help in assessing the likelihood that the government will continue to provide</p>	<p><b>Discussion and Analysis of the Financial Statements</b></p> <p>Paragraph 26: <u>Financial Results, Position and Condition</u>—MD&amp;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. 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; 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>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. Not all changes that are material to the GPFFR are sufficiently important to be included in MD&amp;A. A line-by-line analysis of the financial statements is not generally appropriate. Instead, MD&amp;A should summarize the most important items, explain the relevant causes and effects, and place them in context.</p> <p>Paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u>—MD&amp;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>Paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u>—The discussion of these current factors should go beyond a mere description of existing conditions, such as</p>



Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.</p> <p>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>Paragraph 143: Sub-objective 3C. <b>Whether government operations have contributed to the nation's current and future well-being.</b></p> <p>Paragraph 144: Objective 3, in general, and subobjective 3C, in particular, imply a concern with "financial condition," as well as "financial position." Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself. For example, reports intended to help meet this objective might address users' needs for information about investments in (or expenditures for) research and development, military readiness, and education; changes in the service potential of infrastructure assets; spending for consumption relative to investments; opportunities for growth-stimulating activities; and the likelihood of future inflation.</p> <p>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. Information on trends in total national wealth and income is also important.</p>	<p>demographic characteristics, claims, deferred maintenance, commitments undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</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.

<b>Systems and Control Reporting Objective Concepts from SFFAC 1</b>	<b>Systems and Controls Reporting Objective Concepts from SFFAC 3</b>
<p>Paragraph 11: Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as: ... 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>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><b>The Needs of Users of Federal Financial Reports</b></p> <p>Paragraph 103: Users at all levels need information on internal controls and the adequacy of financial management systems. Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government. They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended. 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. 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>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>Paragraph 15: Regarding systems and controls, MD&amp;A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term “management controls”) are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.</p> <p>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. 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>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. By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity’s management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws. For these reasons, the GPFFR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements. 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. MD&amp;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>

Systems and Control Reporting Objective Concepts from SFFAC 1	Systems and Controls Reporting Objective Concepts from SFFAC 3
<p>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><b>Discussion and Analysis of Systems, Controls and Legal Compliance</b></p> <p>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 intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&amp;A should include a concise description of any major problems in these areas and of the corrective action taken or planned.</p>

## APPENDIX C: DRAFT MD&A VISION FRAMEWORK

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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

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CFO	Chief Financial Officer
CFR	Consolidated Financial Report of the United States Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
GPRAMA	Government Performance and Results Modernization Act
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
RSI	Required Supplemental Information
RSSI	Required Supplementary Stewardship Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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