

Memorandum

MD&A and OCA

May 31, 2024

To: Members of the Board
From: Robin M. Gilliam, Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: **SFFAS 64**, *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* and **SFFAC 10**, *Omnibus Concepts Amendments 2024*, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3 - Ballot Drafts (Topic B)

INTRODUCTION

Staff presents ballot drafts for both:

- I. **SFFAS 64**, *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15*, and
- II. **SFFAC 10**, *Omnibus Concepts Amendments 2024*, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3.

I. Management's Discussion and Analysis (MD&A)

At the April 2024 meeting, the Board prepared for a pre-ballot review by providing the following edits:

- Updating the summary to clearly state the improvements made by this Statement.
- Updating paragraphs 9 c and d to clarify the concise standard.
- Updating paragraph 11 to clarify MD&A users.
- Updating paragraph 12 to clarify what information should be discussed and analyzed in MD&A, and specifically what is meant by key performance results and associated costs.
- Maintaining the materiality boilerplate language.
- Removing appendices B and C.
- Updating the basis for conclusions to reflect these changes.

On May 8, 2024, members were provided with the MD&A pre-ballot draft in preparation for the ballot draft discussion at the June 2024 Board meeting. Comments were due by May 24, 2024. Four members indicated they had no edits. Four members provided non-technical edits for clarification, consistency, punctuation, or simplifying sentence or paragraph structure. Those edits are noted in Attachment 2. *Ballot Draft for SFFAS 64: Management's Discussion and Analysis Rescinding and Replacing SFFAS 15 - Tracked Version*.

On May 8, 2024, staff also requested that members who planned to submit a dissent should provide their written dissent to staff by May 15, 2024. This would allow time for staff to include any dissent in this memorandum for other members to consider these views during their review for the June 2024 Board meeting. Staff did not receive any member's dissent.

The May 8, 2024 pre-ballot version of *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* will be posted on the FASAB website with the Topic B briefing materials.

BALLOT VOTING

Once staff reviews the May revisions during the June meeting and members agree on a final ballot draft, staff will request that members complete Attachment 3, Ballot for **SFFAS 64, Management's Discussion and Analysis Rescinding and Replacing SFFAS 15 (SFFAS 64)** by **June 24, 2024**.

Staff will be available to collect completed Ballot forms during the June 2024 meeting.

After the June meeting, members may also submit their SFFAS 64 ballot by email to Monica Valentine at valentinem@fasab.gov with a cc to Robin Gilliam at gilliamr@fasab.gov by **June 24, 2024**.

II. Omnibus Concepts Amendments 2024 (OCA)

At the February 2024 meeting, the Board discussed staff's analysis of the comment letters on the *Omnibus Concepts Amendments* exposure draft. Members made minor edits to clarify that the four types of note disclosure information were not all required.

On May 8, 2024, members were provided with the OCA pre-ballot draft in preparation for the June 2024 Board meeting. Comments were due by May 24, 2024. Five members provided no additional edits. Three members provided non-technical edits for consistency and conforming with the MD&A pre-ballot draft. Those edits are noted in Attachment 5, *Ballot Draft for SFFAC 10, Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3 – Tracked Version*

On May 8, 2024, staff also requested that members who plan to submit a dissent should provide their written dissent to staff by May 15, 2024. This would allow time for staff to include any dissent in this memorandum for other members to consider these views during their review for the June 2024 Board meeting. Staff did not receive any member dissents.

The May 8, 2024 pre-ballot version of *Omnibus Concepts Amendments 2024* will be posted on the FASAB website with the Topic B briefing materials.

BALLOT VOTING

Once staff reviews the May revisions during the June meeting and members agree on a final ballot draft, staff will request that members complete Attachment 5, Ballot form for **SFFAC 10**, *Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3 (SFFAC 10)* by **June 24, 2024**.

Staff will be available to collect completed Ballot forms during the June 2024 meeting.

After the June meeting, members may also submit your SFFAC 10 ballot by email to Monica Valentine at valentinem@fasab.gov with a cc to Robin Gilliam at gilliamr@fasab.gov by **June 24, 2024**.

NEXT STEPS

Upon Board approval, staff will submit the approved SFFAS 64 and SFFAC 10 to FASAB Sponsors for review.

ATTACHMENTS

1. Ballot Draft for **SFFAS 64**: *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* - Clean Version
2. Ballot Draft for SFFAS 64: *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15* - Tracked Version
3. Ballot form for Statement of Federal Financial Accounting Standards (SFFAS) 64, *Management's Discussion and Analysis Rescinding and Replacing SFFAS 15*
4. Ballot Draft for **SFFAC 10**, *Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3* – Clean Version

5. Ballot Draft for SFFAC 10, *Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3*
– Tracked Version
6. Ballot for Statement of Federal Financial Accounting Concepts (SFFAC) 10, *Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3.*

ATTACHMENT 1

Ballot Draft

SFFAS 64

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 64

Ballot Draft

May 31, 2024

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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SUMMARY

This Statement updates the guidance for management's discussion and analysis (MD&A). In 1999, the Federal Accounting Standards Advisory Board (FASAB or "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. 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 improves MD&A guidance by

- merging and updating relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls;
- providing a concise set of principle-based standards that will guide management in preparing a discussion and analysis of the reporting entity's financial position and condition;
- encouraging flexibility for management to efficiently and effectively prepare MD&A content, thus reducing preparer burden in the long run; and
- guiding management in the preparation of a balanced, concise, integrated, and understandable MD&A that is useful for all users, including those who are not experts in federal government financial matters.

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

MATERIALITY

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.¹ 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.

¹ 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

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 management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).²

RESCISSION AND REPLACEMENT OF SFFAS 15

4. SFFAS 15, *Management's Discussions and Analysis*, is rescinded in its entirety.
5. SFFAS 15 is replaced with the MD&A standards contained herein.³

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 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, concise, integrated, and understandable MD&A. *Information Discussed and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

PRESENTING INFORMATION IN MD&A

² See paragraph 73 of Statement of Federal Financial Accounting Concepts (SFFAC) 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, for concepts about RSI.

³ *Omnibus Concepts Amendments 2024* rescinds SFFAC 3 in its entirety. All relevant standard-like content from SFFAC 3 has been adapted in this Statement. 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*.

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* (par. 12 and 13);
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR;
 - c. summarizing detailed information found in other relevant sources outside of the GPFFR and noting how that information can be obtained;
 - d. limiting duplicative content within the MD&A; and
 - e. presenting only information that is relevant 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 all users, including those who are not experts in federal government financial matters.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

12. MD&A should discuss and analyze the following information about the reporting entity's:
 - a. Organization and mission.
 - b. 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.
 - c. Causes of significant changes and trends in financial condition related to business-type activity, social insurance, long-term fiscal projections, and RSI.

- d. Key performance⁴ results⁵ and their associated costs, such as:
 - i. Performance results that are key to the reporting entity. For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.
 - ii. Actual costs⁶ incurred by the reporting entity to accomplish key performance results.
 - iii. Cost savings, if any, that the reporting entity might experience with the accomplishment of key performance results.
- e. Significant opportunities⁷ 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.⁸
- f. Significant risks⁹ 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, and 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.

⁴ 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.

⁵ The 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.

⁶ If actual costs are not available, the explanation should provide obligations incurred or associated outlays.

⁷ 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.

⁸ "Plans" are actions the reporting entity expects to execute in the future.

⁹ 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.

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.

APPENDIX A: BASIS FOR CONCLUSIONS

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

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

PROJECT HISTORY

- A1. On June 8, 1999, 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 to guide reporting entities on what to report in MD&A, along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are nonauthoritative and, therefore, not required by GAAP. To require MD&A in the GPFFR, the Board needed to issue authoritative guidance in an SFFAS.¹⁰
- A2. On August 12, 1999, FASAB published SFFAS 15, *Management’s Discussions and Analysis*, which was merely an outline of the standards-like content from SFFAC 3, 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 SFFAC 3 is nonauthoritative *other accounting information* as noted in the GAAP hierarchy,¹¹ agencies relied primarily on SFFAS 15 to prepare their MD&As.
- 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

¹⁰ According to the Forward in the *FASAB Handbook*, “[C]oncepts 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.”

¹¹ SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

stewardship investments improvements projects.¹² 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 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 performance-related financial information 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 were 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

- 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 MD&A reporting objectives and a related vision framework. The Board also conducted an agency pilot to test the application of the objectives and framework.
- 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—within the context of MD&A. The Board also considered the application of those objectives to SFFAC 3.
- A7. The Board then drafted an MD&A vision framework based on the 11 MD&A objectives.

¹² 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.

- A8. The Board conducted a pilot to test application of the MD&A objectives and framework, whereby agencies voluntarily followed both to prepare a sample MD&A.
- A9. Fourteen agencies—including eleven Chief Financial Officer Act agencies and three significant consolidation entities—volunteered for the pilot because of their experience with long, burdensome, and/or duplicative MD&As.
- A10. Staff also recruited three additional agencies from the Small Agency Audit Pilot Working Group (hosted by the Department of the Treasury’s Bureau of the Fiscal Service) to assess application of the MD&A objectives and 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. The 17 pilot agencies created sample MD&As based on their fiscal year 2020 financial statements, using only the MD&A objectives and framework.¹³ As a result, the pilot agencies were able to reduce the length of their MD&A between 50% and 80%. For example, the United States Department of Agriculture reduced its MD&A from 77 to 12 pages and the Federal Trade Commission reduced its MD&A from 46 to 13 pages.
- 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 the preparation of more effective content and reducing preparer burden.
- 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, participating agencies 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;

¹³ Requirements from the Office of Management and Budget (OMB) 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.

- 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. The Board 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.
- A16. Based on the results of the MD&A pilot, the Board concluded that the MD&A objectives and vision framework provided a sound foundation for developing these principle-based MD&A standards.

RESCISSION AND REPLACEMENT OF SFFAS 15

- A17. The Board deliberated extensively as to whether to amend or rescind and replace SFFAS 15. While both SFFAS 15 and the standards herein require similar information, the Board concluded that rescission and replacement is the best option to improve the MD&A guidance.
- A18. This Statement improves the MD&A guidance by providing broad, principle-based MD&A standards that merge and update relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and control.
- A19. This Statement improves the MD&A guidance by addressing the concerns expressed by users during FASAB's round tables and other outreach from 2017-2018. These users found the MD&A dense, redundant, and complex and wanted financial information about the reporting entity that was easier to understand.
- a. According to respondents, SFFAS 15's requirement for multiple, discrete MD&A sections contributed to dense, redundant, and complex MD&A information.¹⁴
 - b. The Board concluded that by rescinding SFFAS 15, this Statement removes the requirements for discrete sections and provides broad, principle-based standards that allow reporting entities the flexibility to determine how the information is reported.

¹⁴ SFFAS 15, paragraph 2 states, "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."

- A20. Staff's outreach also revealed that financial statement users wanted to remove dense statistical information repeated from GPRAMA reporting and instead preferred cost information about performance.
- a. Preparers included dense statistical information because GPRAMA terminology—*Performance Goals, Objectives, and Results*—was used in paragraph 2 of SFFAS 15.
 - b. The Board concluded that focusing instead on key performance results and associated costs would reduce redundancy and preparer burden by eliminating the need for reporting entities to prepare GPRAMA statistical information for both budgetary and financial reporting, which are subject to different timeframes.
- A21. Financial statement users also wanted to understand the financial performance in the context of the reporting entity's financial position and condition. The Board concluded that by requiring information about key performance results and associated costs, users would understand what the agency spent in relation to what was achieved, any cost savings for the agency, and any related significant opportunities or risks. The Board concluded that a focus on financial performance would provide users with information as to what affected the reporting entity's financial position and condition.
- A22. The Board concluded that this Statement improves the MD&A guidance by providing a concise set of principle-based standards that will
- a. encourage flexibility for how management can prepare MD&A content;
 - b. help preparers to focus on identifying and explaining the underlying causes of significant changes to and trends in financial statement balances; and
 - c. guide management in how to prepare a balanced, concise, integrated, and understandable MD&A that is useful for all users, especially those who are not experts in federal government financial matters, to understand a reporting entity's financial position and condition.
- A23. The Board concluded that as reporting entities gain experience in preparing a balanced, concise, integrated, and understandable MD&A, preparer burden should be reduced in the long run—regardless of the reporting entity's size or consolidation status.

PRESENTING INFORMATION IN MD&A

- 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, concise, integrated, 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 key 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 a concise MD&A has the following characteristics:
- a. Emphasizes only the vital few or most important matters that explain information required in the *Information Discussed and Analyzed in MD&A* section.
 - b. Summarizes detailed information found within the GPFFR but outside of MD&A with a reference to the GPFFR section. For example, management can provide a reference to a note that is summarized in MD&A.
 - c. Summarizes detailed information found in other relevant sources and indicates how that information can be obtained.
 - d. Limits duplicative content, such as regulatory or compliance instructions. For example, management can:
 - i. summarize information necessary to understand the reason(s) for significant changes in net cost; and
 - ii. avoid repeating language from an SFFAS or instructions from Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

- e. Presents information that is only relevant to the reporting entity for the current reporting period, which could include trend information.

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.

A28. 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. For example, MD&A may include a coordinated discussion of budgetary, financial, and operating performance information when explaining key performance results.

A29. The Board's intent is that an MD&A be understandable to all users, including those who are not experts in federal government financial matters.

- 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 references to other financial reports, and visual aids, such as charts, tables, or graphs, to help explain quantitative information.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

A30. 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, causes of significant changes and trends in the reporting entity's financial position, financial condition, key performance results, significant opportunities and risks, as well as a summary assessment of internal controls and compliance with laws and regulations.

A31. 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.

A32. 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 would 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).
 - i. For example, "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. For example, "disaster recovery efforts from natural disasters in X area of the country during 20XX 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.
- b. Financial condition is broader and more forward-looking than financial position.¹⁵ 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 any other relevant RSI. information.

A33. The Board concluded that MD&A explains what performance results are key to the reporting entity and the associated costs.

- a. For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.
- b. Associated costs are actual costs, or if actual costs are not available, the explanation should include obligations incurred or associated outlays. MD&A

¹⁵ SFFAC 1, par. 180.

explains how key performance accomplishments and challenges affected budgetary or financing resources during the reporting period.

- c. MD&A focuses on what it costs the agency and its key organizational components to pursue or accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- d. However, the reporting of consolidated government-wide key performance results is **not required** in the MD&A of the CFR.
 - i. Paragraph 6 of SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states, “[T]he 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. Appendix A in the CFR, *Reporting Entity*, provides references to websites where users can review a reporting entity’s discussion of key performance results and challenges.

A34. 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?

A35. 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?

A36. 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 AFR.

STEWARDSHIP INVESTMENTS

- A37. On June 11, 1996, the Board issued SFFAS 8, *Supplementary Stewardship Reporting*, which included a requirement to report required supplementary stewardship information (RSSI). On September 27, 2019, the Board issued SFFAS 57, *Omnibus Amendments 2019*, which eliminated the requirement for reporting RSSI.
- A38. In paragraphs A7-A10 of the basis for conclusions of SFFAS 57, the Board discussed the comment letters from the 11 respondents. The majority of those responders agreed with eliminating RSSI because users did not use it. 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.
- A39. Paragraph A11 of SFFAS 57 indicated that the Board would also consider whether to report stewardship investments in MD&A. As part of the MD&A project, the Board reviewed AFRs within the context of this feedback on SFFAS 57. The Board found 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.
- A40. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management concludes this information is relevant or significant to the reporting entity's financial position or condition.

ADDITIONAL INFORMATION

- A41. The Board acknowledges the updates OMB has made to improve MD&A reporting in Circular A-136. However, FASAB establishes GAAP for the federal government through its pronouncements. This Statement will be level-A guidance in the GAAP hierarchy.
- A42. The Board concluded that this Statement has adapted all relevant standard-like content from SFFAC 3. *Omnibus Concepts Amendments* amends MD&A concepts in SFFAC 2, *Entity and Display*, and rescinds MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.
- A43. The Board does not intend 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 that including the MD&A requirements from SFFAS 37 in this pronouncement would cause duplication of information already required in MD&A.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

- A44. FASAB issued the exposure draft (ED), *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15*, on September 7, 2023, with comments requested by December 7, 2023.
- A45. 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 affected by the particular issue in prior years. 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 entity program offices, professional associations, and nonprofit organizations. The Board did not rely on the number in favor of or opposed to a given position but considered each response and weighed the merits of the points raised.
- A47. 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 with these standards as compared to SFFAS 15.
 - b. Updated paragraph 9.c to better explain that reporting entities should summarize, and reference additional information found outside the GPFFR and how that information can be obtained.
 - c. Updated a footnote to explain that short term plans refer to those plans a reporting entity would implement in the next reporting period.
- A48. The Board agreed to consider implementation guidance and training after the issuance of this Statement.
- A49. FASAB issued the ED with an alternative view because of a member's concerns that SFFAS 15 could be amended instead of rescinded and replaced. The member believed that there were only minor differences between the ED and SFFAS 15 and that the ED was more prescriptive than SFFAS 15.
- 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 who indicated 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 the information.

- b. The Board recognizes the similarity between this Statement 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 standard-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based MD&A SFFAS.
- c. Another concern the member noted in the alternative view was that the Board should consider tiered reporting for MD&A.
- d. Many of the respondents agreed with a tiered approach.
 - i. The Board intends for this Statement to 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 it could discuss tiered reporting as a separate project at a future agenda setting meeting because the scope goes beyond reporting for MD&A. The Board also noted that tiered reporting might be difficult to achieve based on work done by other standard setters, such as the Governmental Accounting Standards Board, and individual reporting entities potentially reporting in a different manner from the CFR.
- 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 guidance and training after the issuance of this Statement.

BOARD APPROVAL

A50. This Statement was [TBD approved] for issuance by all members.

APPENDIX B: ABBREVIATIONS

AFR	Agency Financial Report
CFR	Consolidated Financial Report of the United States Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
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 Supplementary 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

Ballot Draft

SFFAS 64

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 64

Ballot Draft

September XX May 31, 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:

- [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

This Statement updates the guidance for management's discussion and analysis (MD&A). In 1999, the Federal Accounting Standards Advisory Board (FASAB or "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. 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 improves MD&A guidance by

- merging and updating relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls;
- providing a concise set of principle-based standards that will guide management in ~~providing~~ preparing a discussion and analysis of the reporting entity's financial position and condition;
- encouraging flexibility for management to efficiently and effectively prepare MD&A content, thus reducing preparer burden in the long run; and
- guiding management in ~~how to prepare~~ the preparation of a balanced, concise, integrated, and understandable MD&A that is useful for all users, ~~especially including~~ those who are not experts in federal government financial matters.

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

MATERIALITY

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.¹ 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.

¹ 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

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 management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).²

RESCISSION AND REPLACEMENT OF SFFAS 15

4. ~~This paragraph rescinds SFFAS 15, *Management's Discussions and Analysis*, is rescinded in its entirety.~~
5. ~~SFFAS 15 is replaced with the MD&A standards contained herein. This paragraph replaces SFFAS 15 with the MD&A standards contained herein.~~³

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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 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, ~~integrated~~, and understandable MD&A. *Information*

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² See paragraph 73 of Statement of Federal Financial Accounting Concepts (SFFAC) 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, for concepts about RSI.

³ *Omnibus Concepts Amendments 2024* rescinds SFFAC 3 in its entirety. All relevant standard-like content from SFFAC 3 has been adapted in this Statement. 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*.

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

PRESENTING INFORMATION IN MD&A

8. To achieve a balanced MD&A, management should include information about events, conditions, trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, or operating performance.
9. To achieve a concise MD&A, management should summarize information that is sufficient to meet the needs of its users. 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* (par. 12 and 13);
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR;
 - c. summarizing detailed information found in other relevant sources outside of the GPFFR and noting how that information can be obtained;
 - d. limiting duplicative content within the MD&A; and
 - e. presenting only information that is relevant 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 all users, ~~especially including~~ those who are not experts in federal government financial matters.

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INFORMATION DISCUSSED AND ANALYZED IN MD&A

12. MD&A should discuss and analyze the following information about the reporting entity's:
 - a. Organization and mission.
 - b. 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.

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c. Causes of significant changes and trends in financial condition ~~as explained by related to~~ business-type activity, social insurance, long-term fiscal projections, and ~~other relevant RSI~~.

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d. Key performance⁴ results⁵ and their associated costs, such as:

i. ~~What p~~Performance results ~~that~~ are key to the reporting entity~~?~~. For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.

ii. ~~What a~~Actual costs⁶ ~~did incurred by~~ the reporting entity ~~incur to~~ accomplish key performance results~~?~~.

iii. ~~What c~~Cost savings, if any, ~~that could~~ the reporting entity ~~might~~ experience with the accomplishment of key performance ~~results?~~.

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e. Significant opportunities⁷ 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.⁸

f. Significant risks⁹ 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, and 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

⁴ 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.

⁵ The 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.

⁶ If actual costs are not available, the explanation should provide obligations incurred or associated outlays.

⁷ 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.

⁸ "Plans" are actions the reporting entity expects to execute in the future.

⁹ 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.

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.

APPENDIX A: BASIS FOR CONCLUSIONS

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

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

PROJECT HISTORY

- A1. On June 8, 1999, 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 to guide reporting entities on what to report in MD&A, along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are nonauthoritative and, therefore, not required by GAAP. To require MD&A in the GPFFR, the Board needed [to issue](#) authoritative guidance in an SFFAS.¹⁰
- A2. On August 12, 1999, FASAB published SFFAS 15, *Management’s Discussions and Analysis*, which was merely an outline of the standards-like content from SFFAC 3, 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 SFFAC 3 is nonauthoritative *other accounting information* as noted in the GAAP hierarchy,¹¹ agencies relied primarily on SFFAS 15 to prepare their MD&As.
- 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

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¹⁰ According to the Forward in the *FASAB Handbook*, “[C]oncepts 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.”

¹¹ SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

stewardship investments improvements projects.¹² 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 performance-related financial information 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 were 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.

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DEVELOPMENT OF MD&A STANDARDS

- 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 MD&A reporting objectives and a related vision framework. The Board also conducted an agency pilot to test the application of the objectives and framework.
- 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—within the context of MD&A. The Board also considered the application of those objectives to SFFAC 3.
- A7. The Board then drafted an MD&A vision framework based on the 11 MD&A objectives.

¹² 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.

- A8. The Board conducted a pilot to test application of the MD&A objectives and framework, whereby agencies voluntarily followed both to prepare a sample MD&A.
- A9. Fourteen agencies—including eleven Chief Financial Officer Act agencies and three significant consolidation agencies/entities—volunteered for the pilot because of their experience with long, burdensome, and/or duplicative MD&As.
- A10. Staff also recruited three additional agencies from the Small Agency Audit Pilot Working Group (hosted by the Department of the Treasury's Bureau of the Fiscal Service) to assess application of the MD&A objectives and 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. The 17 pilot agencies created sample MD&As based on their fiscal year 2020 financial statements, using only the MD&A objectives and framework.¹³ As a result, the pilot agencies were able to reduce the length of their MD&A between 50% and 80%. For example, the United States Department of Agriculture reduced its MD&A from 77 to 12 pages and the Federal Trade Commission reduced its MD&A from 46 to 13 pages.
- 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 the preparation of more effective content and reducing preparer burden.
- 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, participating agencies and user reviewers recommended that a streamlined MD&A could be accomplished by
- 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;
 - 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;
 - providing concise and tangible examples about the magnitude of risks and current and planned actions to address them;
 - including high-level performance goals that support the current leadership agenda instead of low-level metrics;

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¹³ Requirements from the Office of Management and Budget (OMB) 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.

- 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. The Board 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.
- A16. Based on the results of the MD&A pilot, the Board concluded that the MD&A objectives and vision framework provided a sound foundation for developing these principle-based MD&A standards.

RESCISSION AND REPLACEMENT OF SFFAS 15

- A17. The Board deliberated extensively as to whether to amend or rescind and replace SFFAS 15. While both SFFAS 15 and the standards herein require similar information, the Board concluded that rescission and replacement is the best option to improve the MD&A guidance.
- A18. This Statement improves the MD&A guidance by providing broad, principle-based MD&A standards that merge and update relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and control.
- A19. This Statement improves the MD&A guidance by addressing the concerns ~~voiced~~ ~~raised~~ ~~expressed~~ by the community users during FASAB's round tables and other outreach from 2017-2018. These users found the MD&A dense, redundant, and complex and wanted financial information about the reporting entity that was easier to understand.
- a. According to respondents, SFFAS 15's requirement for ~~multiple, discrete MD&A~~ sections contributed to dense, redundant, and complex MD&A information.¹⁴
- b. The Board concluded that by rescinding SFFAS 15, this Statement removes the requirements for discrete sections and provides broad, principle-based standards that allow reporting entities the flexibility to determine how the information is reported.

Commented [GR17]: Non-technical edit for clarification.

Commented [GR18]: Non-technical edit for clarification.

¹⁴ SFFAS 15, paragraph 2 states, "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."

A20. Staff's outreach also revealed that financial statement users wanted to remove dense statistical information repeated from GPRAMA reporting and instead ~~wanted~~ preferred cost information about performance.

Commented [GR19]: Non-technical edit for clarification.

- a. Preparers included dense statistical information because GPRAMA terminology—*Performance Goals, Objectives, and Results*—was used in paragraph 2 of SFFAS 15.
- b. The Board concluded that focusing instead on key performance results and associated costs would reduce redundancy and preparer burden by eliminating the need for reporting entities to prepare GPRAMA statistical information for both budgetary and financial reporting, which are subject to different timeframes.

A21. Financial statement users also wanted to understand the financial performance in the context of the reporting entity's financial position and condition. The Board concluded that by requiring information about key performance results and associated costs, users would understand what the agency spent in relation to what was achieved, any cost savings for the agency, and any related significant opportunities or risks. The Board concluded that a focus on financial performance would provide users with information as to what affected the reporting entity's financial position and condition.

A22. The Board concluded that this Statement improves the MD&A guidance by providing a concise set of principle-based standards that will

- a. encourage flexibility for how management can prepare MD&A content;
- b. help preparers to focus on identifying and explaining the underlying causes of significant changes to and trends in financial statement balances; and
- c. guide management in how to prepare a balanced, concise, integrated, and understandable MD&A that is useful for all users, especially those who are not experts in federal government financial matters, to understand a reporting entity's financial position and condition.

A23. The Board concluded that as reporting entities gain experience in preparing a balanced, concise, integrated, and understandable MD&A, preparer burden should be reduced in the long run—regardless of the reporting entity's size or consolidation status.

PRESENTING INFORMATION IN MD&A

- 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, concise, 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 key 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 a concise MD&A has the following characteristics:
- a. Emphasizes only the vital few or most important matters that explain information required in the *Information Discussed and Analyzed in MD&A* section.
 - b. Summarizes detailed information found within the GPFFR but outside of MD&A with a reference to the GPFFR section. For example, management can provide a reference to a note that is summarized in MD&A.
 - c. Summarizes detailed information found in other relevant sources and notes indicates how that information can be obtained.
 - d. Limits duplicative content, such as regulatory or compliance instructions. For example, management can:
 - i. ~~For example, management can s~~Summarize information necessary to understand the reason(s) for significant changes in net cost; and

Commented [GR20]: Non-technical edit for consistent ordering with how characteristics in paragraphs 8-11.

Commented [GR21]: Non-technical edit for clarification.

- ii. ~~For example, management can~~ avoid repeating language from an SFFAS or instructions from Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

Commented [GR22]: Non-technical edit to simplify paragraph/list structure.

- e. Presents information that is only relevant to the reporting entity for the current reporting period, which could include trend information.

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.

A28. 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. For example, MD&A may include a coordinated discussion of budgetary, financial, and operating performance information ~~for when explaining~~ key performance results.

Commented [GR23]: Non-technical edit for clarification.

A29. The Board's intent is that an MD&A be understandable to all users, ~~especially including~~ those who are not experts in federal government financial matters.

- 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 references to other~~ financial reports, and visual aids, such as charts, tables, or graphs, to help explain quantitative information.

Commented [GR24]: Non-technical edit for clarification.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

A30. 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, ~~causes of significant changes and trends in the reporting entity's financial position, financial condition, key performance results, and how and why significant 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 as well as a summary assessment of internal controls, and compliance with laws and regulations.~~

Commented [GR25]: Non-technical edit to simplify the paragraph.

A31. 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.

A32. 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 would 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).
 - i. For example, "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. For example, "disaster recovery efforts from natural disasters in X area of the country during 20XX 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.
- b. Financial condition is broader and more forward-looking than financial position.¹⁵ 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 any other relevant ~~requirement supplementary RSI~~ information.

Commented [GR26]: Non-technical change for clarification.

A33. The Board concluded that MD&A explains what performance results are key to the reporting entity and the associated costs.

¹⁵ SFFAC 1, par. 180.

- a. For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.
- b. Associated costs are actual costs, or if actual costs are not available, the explanation should include obligations incurred or associated outlays.
~~Therefore, MD&A explains how key performance accomplishments and challenges affected budgetary or financing resources during the reporting period.~~
- c. MD&A focuses on what it costs the agency and its key organizational components to pursue or accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- d. However, the reporting of consolidated government-wide key performance results is **not required** in the MD&A of the CFR.
 - i. Paragraph 6 of SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states, "[T]he 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. Appendix A in the CFR, *Reporting Entity*, provides references to websites where users can review a reporting entity's discussion of key performance results and challenges.

Commented [GR27]: Non-technical edit to simplify sentence.

- A34. 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?
- A35. 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?
- A36. 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 AFR.

STEWARDSHIP INVESTMENTS

- A37. On June 11, 1996, the Board issued SFFAS 8, *Supplementary Stewardship Reporting*, which included a requirement to report required supplementary stewardship information (RSSI). On September 27, 2019, the Board issued SFFAS 57, *Omnibus Amendments 2019*, which eliminated the requirement for reporting RSSI.
- A38. In paragraphs A7-A10 of the basis for conclusions of SFFAS 57, the Board discussed the comment letters from the 11 respondents. The majority of those responders agreed with eliminating RSSI because users did not use it. 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.
- A39. Paragraph A11 of SFFAS 57 indicated that the Board would also consider whether to report stewardship investments in MD&A. As part of the MD&A project, the Board reviewed AFRs within the context of this feedback on SFFAS 57. The Board found 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.
- A40. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management concludes this information is relevant or significant to the reporting entity's financial position or condition.

ADDITIONAL INFORMATION

- A41. The Board acknowledges the updates OMB has made to improve MD&A reporting in Circular A-136. However, FASAB establishes GAAP for the federal government through its pronouncements. This Statement will be level-A guidance in the GAAP hierarchy.
- A42. The Board concluded that this Statement has adapted all relevant standard-like content from SFFAC 3. *Omnibus Concepts Amendments* amends MD&A concepts in SFFAC 2, *Entity and Display*, and rescinds MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.

A43. 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 that including the MD&A requirements from SFFAS 37 in this pronouncement would cause duplication of information already required in MD&A.

Commented [GR28]: Non-technical edit to simplify sentence.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

A44. FASAB issued the exposure draft (ED), *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15*, on September 7, 2023, with comments requested by December 7, 2023.

A45. 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 affected by the particular issue in prior years. 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 entity program offices, professional associations, and nonprofit organizations. The Board did not rely on the number in favor of or opposed to a given position but considered each response and weighed the merits of the points raised.

A47. 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 with these standards as compared to SFFAS 15.
- b. Updated paragraph 9.c to better explain that reporting entities should summarize, and reference additional information found outside the GPFFR and how that information can be obtained.
- c. Updated a footnote to explain that short term plans refer to those plans a reporting entity would implement in the next reporting period.

Commented [GR29]: Non-technical edit - punctuation.

A48. The Board agreed to consider implementation guidance and training after the issuance of this Statement.

A49. FASAB issued the ED with an alternative view because of a member's concerns that SFFAS 15 could be amended instead of rescinded and replaced. The member believed that there were only minor differences between the ED and SFFAS 15 and that the ED was more prescriptive than SFFAS 15.

- 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 who indicated 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 the information.
- b. The Board recognizes the similarity between this Statement 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 standard-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based MD&A SFFAS.
- c. Another concern the member noted in the alternative view was that the Board should consider tiered reporting for MD&A.
- d. Many of the respondents agreed with a tiered approach.
 - i. The Board intends for this Statement to 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 it could discuss tiered reporting as a separate project at a future agenda setting meeting because the scope goes beyond reporting for MD&A. The Board also noted that tiered reporting might be difficult to achieve based on work done by other standard setters, such as the Governmental Accounting Standards Board, and individual reporting entities potentially reporting in a different manner from the CFR.
- 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 guidance and training after the issuance of this Statement.

BOARD APPROVAL

A50. This Statement was [TBD approved] for issuance by all members.

APPENDIX B: ABBREVIATIONS

AFR	Agency Financial Report
CFR	Consolidated Financial Report of the United States Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
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 Supplementary 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 3

**Ballot for Statement of Federal Financial
Accounting Standards (SFFAS) 64:**

Management's Discussion and Analysis

Rescinding and Replacing SFFAS 15



Date: May 31, 2024

To: Members of the Board

From: Monica R. Valentine, Executive Director

Subject: **Ballot for Statement of Federal Financial Accounting Standards (SFFAS) 64, *Management’s Discussion and Analysis Rescinding and Replacing SFFAS 15 (SFFAS 64)***

The following is a ballot for SFFAS 64. Please enter your name in the space provided below and indicate your approval or disapproval. Once staff reviews the ballot draft during the June 2024 meeting members may present their ballot at the Board meeting. Alternatively, members may e-mail their ballot to valentineM@fasab.gov with an e-mail copy to Robin Gilliam at gilliamr@fasab.gov.

Ballots are due by **June 24, 2024**. Members not responding by **June 28, 2024**, will be considered to have abstained. If you decide to write a dissent, please notify staff immediately and provide your written dissent as soon as possible but no later than **June 6, 2024**. Any dissents received will be circulated to other members as soon as possible so that they may consider the views of the dissenting member.

Board member:

Date:

I approve SFFAS 64 ☐

I do not approve SFFAS 64 ☐

ATTACHMENT 4

Ballot Draft

SFFAC 10

OMNIBUS CONCEPTS AMENDMENTS 2024

AMENDING SFFAC 2 WITH NOTE DISCLOSURES AND MD&A
CONCEPTS AND RESCINDING SFFAC 3

– Clean Version –



OMNIBUS CONCEPTS AMENDMENTS 2024

AMENDING SFFAC 2 WITH NOTE DISCLOSURES AND MD&A CONCEPTS AND
RESCINDING SFFAC 3

Statement of Federal Financial Accounting Concepts 10

Ballot Draft

May 31, 2024

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

Statements of Federal Financial Accounting Concepts (SFFACs) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting, and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component entity reporting. Hence, FASAB's second concepts statement, *Entity and Display*, focused on the basis for defining a reporting entity and the display of component entity financial statements. Other concepts statements address financial reporting objectives, qualitative characteristics of information, the intended audience for the financial report of the U.S. Government (FR), elements of accrual basis statements and their measurement attributes, communication methods, and managerial cost accounting.

Through its ongoing conceptual framework project, FASAB has reviewed its early concepts statements and is establishing new statements as needed. The *FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended* (FASAB Handbook) provides a full discussion of FASAB's SFFACs. The FASAB Handbook discusses the difference between SFFACs and generally accepted accounting principles and can be accessed at <https://fasab.gov/accounting-standards/>.

SUMMARY

This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) expands upon concepts in SFFAC 2, *Entity and Display*, to include the types of information that may be presented in note disclosures and the role of note disclosures as an integral part of the basic financial statements. This Statement also amends management's discussion and analysis (MD&A) concepts in SFFAC 2 and rescinds MD&A concepts in SFFAC 3, *Management's Discussion and Analysis*, to consolidate MD&A concepts into one SFFAC.

Users rely on note disclosures to better understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Note disclosures are necessary to enhance understandability of the financial statements for users and to provide insight into the complexity and amount of information reported. This Statement amends SFFAC 2 by rescinding paragraph 68 in its entirety and replacing it with a set of principles for the Board to use to reduce repetition and improve relevance, clarity, comparability, and consistency for note disclosures.

Users rely on MD&A to understand management's insights about the reporting entity's financial position, financial condition, and performance of the reporting entity in the context of the entity's mission, organization, and key financial and performance information. This Statement amends SFFAC 2 by rescinding paragraph 69 as well as rescinds SFFAC 3 in its entirety to provide consolidated MD&A guidance for the Board in a new paragraph 69.

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CONCEPTS

SCOPE

1. This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) amends concepts related to the role of note disclosures as an integral part of the basic financial statements and the types of information to present. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) may use these concepts to help identify efficient and effective ways to disclose information supporting the fair presentation of amounts in the financial statements.
2. This Statement consolidates the Board’s concepts for management’s discussion and analysis (MD&A) to provide a conceptual overview of information that may be included in the MD&A.

NOTE DISCLOSURE AMENDMENTS TO PARAGRAPH 68 OF SFFAC 2

3. The header above paragraph 68 is amended as follows:

~~“Other Information”~~ “Note Disclosures”

4. Paragraph 68 is rescinded in its entirety and replaced with the following text.

Note Disclosures

68. Financial information is also conveyed through the use of **note disclosures**, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement one or more of the following:

- Information recognized in financial statements.
- Information about the reporting entity.
- Information about events and conditions not recognized in the statements.
- Information to assist in understanding and assessing the government’s accountability.^{9A}

The types of information that may be presented in note disclosures include:

A. Relevant information integral to understanding information recognized in financial statements—Note disclosures may explain or further describe information recognized in financial statements. Note disclosures may include, but are not limited to, such information as the nature of or terms used to describe an item, restrictions on the use of an

^{9A} Refer to SFFAC 1, *Objectives of Federal Financial Reporting*, par. 71-104 for a further understanding of accountability.

item, relevant disaggregation of an item, uncertainties in measuring items, methods and assumptions used in estimating an item, and/or significant accounting policies affecting items.

B. Context or background information regarding the reporting entity and its activities—Note disclosures may supplement financial statements to provide information regarding the entity's mission, programs, significant relationships with other entities, and any special restrictions or privileges that apply to the entity in executing programs and the accountability for resources. Note disclosures may also communicate information regarding the legislative purpose behind governmental activities and the related financial reporting effect.

C. Information about past events and current conditions not recognized—Note disclosures may present information about past events, current conditions, and uncertainties that have not been recognized in financial statements but may affect the entity's future resources or use of resources. This information may be used to assess the government's ability to continue operating at its current levels.

D. Information to demonstrate accountability—Note disclosures may also provide quantitative and qualitative information that demonstrates an entity's accountability to its citizens, including information that may be helpful in assessing the effects of management's decision-making on the entity.

MD&A AMENDMENTS TO PARAGRAPH 69 OF SFFAC 2

5. SFFAC 2 is amended by inserting the title **Required Supplementary Information** above paragraph 69.

6. Paragraph 69 is rescinded in its entirety and replaced with the following text:

69. In addition to the financial information conveyed in basic information, general information about the reporting entity is included as required supplementary information (RSI):

- A. RSI includes management's discussion and analysis (MD&A) of the reporting entity. MD&A is an important vehicle to communicate management's insights about the reporting entity, including the reliability of information reported, to increase the understandability and usefulness of the agency financial report.
- B. MD&A summarizes information 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.

RESCISSION OF SFFAC 3

7. This paragraph rescinds SFFAC 3 in its entirety.

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

AMENDING NOTE DISCLOSURE CONCEPTS

- A1. FASAB added the note disclosures project to its agenda in February 2017 with the objective of improving the relevance, clarity, consistency, and comparability of note disclosures among federal entities. Staff formed a task force to assist the Board with the related research. The Board also conducted a survey on note disclosures in which a majority of respondents indicated that materiality-based judgment might assist them in eliminating redundant and unnecessary note disclosures. Thus, the Board developed materiality concepts and on May 4, 2020, issued SFFAC 9, *Materiality*.
- A2. SFFAC 9 clarified existing materiality concepts by discussing the needs of reasonable users, clarifying the concept of misstatement, and identifying specific federal environment considerations.
- A3. Next, the Board focused on a two-phased approach for improving note disclosures. During the initial phase, the Board developed note disclosures concepts; in the second phase, the Board will apply the concepts to reexamine existing note disclosure requirements.
- A4. Note disclosures contribute to the usefulness of financial statement line items and help users understand the information in the proper context.¹ Note disclosures also help users understand the underlying assumptions and uncertainties inherent in the process of measuring the items.²
- A5. This Statement amends note disclosures concepts to assist the Board in the reexamination of note disclosure requirements in existing standards, as well as in the development of future requirements.

¹ SFFAC 1, par. 158.

² SFFAC 1, par. 160.

CONSOLIDATING MD&A CONCEPTS AND RESCINDING SFFAC 3

- A6. On June 8, 1999, FASAB issued SFFAC 3 as part of the initial federal financial framework. The SFFAC 3 concepts included standard-like content within the concepts.
- A7. On August 12, 1999, FASAB published an outline of SFFAC 3 in Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, to require MD&A as part of the agency financial report. The Board expected agencies to consider the standard-like content in SFFAC 3 in conjunction with SFFAS 15 when preparing MD&As. Practice has shown that agencies have relied primarily on SFFAS 15 when preparing MD&As.
- A8. The Board's goals for the MD&A project were to consolidate relevant content from SFFAC 3 and SFFAS 15 into principle-based MD&A standards. The MD&A standards will guide preparers to provide users with balanced, concise, integrated, and understandable information 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.
- A9. To achieve these goals, the Board first identified MD&A objectives by analyzing the four reporting objectives found in SFFAC 1, *Objectives of Federal Financial Reporting*—budgetary integrity, operating performance, stewardship, and systems and controls—in conjunction with SFFAC 3. The Board then drafted an MD&A vision framework.
- A10. The Board requested that staff conduct a pilot to test application of the MD&A objectives and vision framework. Staff conducted the pilot from January through March 2021, with 17 pilot agencies and 16 users.
- A11. In June 2021, the Board determined the MD&A pilot was successful and the objectives and vision framework were sufficient for consolidating relevant content from SFFAC 3 and SFFAS 15 into principle-based MD&A standards.
- A12. This Statement rescinds SFFAC 3. The Board has consolidated relevant MD&A concepts into paragraph 69 of SFFAC 2.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

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- A14. 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

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- A16. The majority of respondents generally agreed with the proposals. Specifically, respondents generally agreed with the amendments to paragraph 68 that identified information the Board may include when developing note disclosures. Respondents generally agreed with the amendments to paragraph 69 that consolidated concepts for MD&A and rescinded SFFAC 3.
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BOARD APPROVAL

- A18. This Statement was [TBD approved] for issuance by all members.

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
MD&A	Management's Discussion and Analysis
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

FASAB Board Members

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R. Scott Bell

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ATTACHMENT 5

Ballot Draft

SFFAC 10

OMNIBUS CONCEPTS AMENDMENTS 2024

AMENDING SFFAC 2 WITH NOTE DISCLOSURES AND MD&A
CONCEPTS AND RESCINDING SFFAC 3

– Tracked Version –

OMNIBUS CONCEPTS AMENDMENTS 2024

AMENDING SFFAC 2 WITH NOTE DISCLOSURES AND MD&A CONCEPTS AND
RESCINDING SFFAC 3

Statement of Federal Financial Accounting Concepts 10

Ballot Draft

~~September XX~~ May 31, 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:

- [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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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

Statements of Federal Financial Accounting Concepts (SFFACs) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting, and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component entity reporting. Hence, FASAB's second concepts statement, *Entity and Display*, focused on the basis for defining a reporting entity and the display of component entity financial statements. Other concepts statements address financial reporting objectives, qualitative characteristics of information, the intended audience for the financial report of the U.S. Government (FR), elements of accrual basis statements and their measurement attributes, communication methods, and managerial cost accounting.

Through its ongoing conceptual framework project, FASAB has reviewed its early concepts statements and is establishing new statements as needed. The *FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended* (*FASAB Handbook*) provides a full discussion of FASAB's SFFACs. The *FASAB Handbook* discusses the difference between SFFACs and generally accepted accounting principles and can be accessed at <https://fasab.gov/accounting-standards/>.

SUMMARY

This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) expands upon concepts in SFFAC 2, *Entity and Display*, to include the types of information that may be presented in note disclosures and the role of note disclosures as an integral part of the basic financial statements. This Statement also amends management's discussion and analysis (MD&A) concepts in SFFAC 2 and rescinds MD&A concepts in SFFAC 3, *Management's Discussion and Analysis*, to consolidate MD&A concepts into one SFFAC.

Users rely on note disclosures to better understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Note disclosures are necessary to enhance understandability of the financial statements for users and to provide insight into the complexity and amount of information reported. This Statement amends paragraph 68 of SFFAC 2 by rescinding paragraph 68 in its entirety and adding replacing it with a set of principles for the Board to use to reduce repetition and improve relevance, clarity, comparability, and consistency for note disclosures.

Users rely on MD&A to understand management's insights about the reporting entity's financial position, financial condition, and performance of the reporting entity in the context of the entity's mission, organization, and key financial and performance information. This Statement amends SFFAC 2 consolidates guidance for the Board on developing MD&A standards by rescinding paragraph 69 as well as rescinds SFFAC 3 in its entirety to provide consolidated MD&A guidance for the Board in a new paragraph 69, amending paragraph 69 of SFFAC 2 and by rescinding SFFAC 3.

Commented [GR1]: Non-technical edit - updated to clearly state how the Board amended paragraph 69 in SFFAC 2.

Commented [GR2]: Non-technical edit - updated to clearly state how the Board amended paragraph 68 in SFFAC 2 and consolidated MD&A concepts.

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CONCEPTS

SCOPE

1. This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) amends concepts related to the role of note disclosures as an integral part of the basic financial statements and the types of information to present. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) may use these concepts to help identify efficient and effective ways to disclose information supporting the fair presentation of amounts in the financial statements.
2. This Statement consolidates the Board’s concepts for management’s discussion and analysis (MD&A) ~~by rescinding SFFAC 3, *Management’s Discussion and Analysis*, and amending paragraph 69 of SFFAC 2, *Entity and Display*, to provide a conceptual overview of information that may be included in the MD&A.~~

Commented [GR3]: Non-technical edit - removed details for consistency with scope par. 1.

NOTE DISCLOSURE AMENDMENTS TO PARAGRAPH 68 OF SFFAC 2

3. The header above paragraph 68 is amended as follows:

~~“Other Information”~~ “Note Disclosures”

4. ~~Paragraph 68 is rescinded in its entirety and replaced with the following text. This paragraph rescinds paragraph 68 of amends SFFAC 2 by rescinding paragraph 68 in its entirety and replaces replacing it with the following text:~~

Commented [GR4]: Non-technical edit - for consistency with the summary.

Note Disclosures

68. Financial information is also conveyed through the use of **note disclosures**, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement one or more of the following:

- Information recognized in financial statements.
- Information about the reporting entity.
- Information about events and conditions not recognized in the statements.
- Information to assist in understanding and assessing the government’s accountability.^{9A}

The types of information that may be presented in note disclosures include:

A. **Relevant information integral to understanding information recognized in financial statements**—Note disclosures may explain or

^{9A} Refer to SFFAC 1, *Objectives of Federal Financial Reporting*, par. 71-104 for a further understanding of accountability.

further describe information recognized in financial statements. Note disclosures may include, but are not limited to, such information as the nature of or terms used to describe an item, restrictions on the use of an item, relevant disaggregation of an item, uncertainties in measuring items, methods and assumptions used in estimating an item, and/or significant accounting policies affecting items.

B. Context or background information regarding the reporting entity and its activities—Note disclosures may supplement financial statements to provide information regarding the entity's mission, programs, significant relationships with other entities, and any special restrictions or privileges that apply to the entity in executing programs and the accountability for resources. Note disclosures may also communicate information regarding the legislative purpose behind governmental activities and the related financial reporting effect.

C. Information about past events and current conditions not recognized—Note disclosures may present information about past events, current conditions, and uncertainties that have not been recognized in financial statements but may affect the entity's future resources or use of resources. This information may be used to assess the government's ability to continue operating at its current levels.

D. Information to demonstrate accountability—Note disclosures may also provide quantitative and qualitative information that demonstrates an entity's accountability to its citizens, including information that may be helpful in assessing the effects of management's decision-making on the entity.

MD&A AMENDMENTS TO PARAGRAPH 69 OF SFFAC 2

5. ~~This paragraph amends~~ SFFAC 2 ~~is amended~~ by inserting the title **Required Supplementary Information** above paragraph 69.

6. ~~This paragraph 69 is rescinded in its entirety and replaced~~ ~~amends SFFAC 2 by rescinding~~ ~~paragraph 69 in its entirety and replaces~~ ~~replacing it~~ with the following text:

69. In addition to the financial information conveyed in basic information, general information about the reporting entity is included as required supplementary information (RSI):

- A. RSI includes management's discussion and analysis (MD&A) of the reporting entity. MD&A is an important vehicle to communicate management's insights about the reporting entity, including the reliability of information reported, to increase the understandability and usefulness of the agency financial report.

Commented [GR5]: Non-technical edit - for consistency with the summary.

- B. MD&A summarizes information 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.

RESCISSION OF SFFAC 3

- 7. This paragraph rescinds SFFAC 3 in its entirety.

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

AMENDING NOTE DISCLOSURE CONCEPTS

- A1. FASAB added the note disclosures project to its agenda in February 2017 with the objective of improving the relevance, clarity, consistency, and comparability of note disclosures among federal entities. Staff formed a task force to assist the Board with the related research. The Board also conducted a survey on note disclosures in which a majority of respondents indicated that materiality-based judgment might assist them in eliminating redundant and unnecessary note disclosures. Thus, the Board developed materiality concepts and on May 4, 2020, issued SFFAC 9, *Materiality*.
- A2. SFFAC 9 clarified existing materiality concepts by discussing the needs of reasonable users, clarifying the concept of misstatement, and identifying specific federal environment considerations.
- A3. Next, the Board focused on a two-phased approach for improving note disclosures. During the initial phase, the Board developed note disclosures concepts; in the second phase, the Board will apply the concepts to reexamine existing note disclosure requirements.
- A4. Note disclosures contribute to the usefulness of financial statement line items and help users understand the information in the proper context.¹ Note disclosures also help users understand the underlying assumptions and uncertainties inherent in the process of measuring the items.²
- A5. This Statement amends note disclosures concepts to assist the Board in the reexamination of note disclosure requirements in existing standards, as well as in the development of future requirements.

¹ SFFAC 1, par. 158.

² SFFAC 1, par. 160.

CONSOLIDATING MD&A CONCEPTS AND RESCINDING SFFAC 3

- A6. On June 8, 1999, FASAB issued SFFAC 3 as part of the initial federal financial framework. The SFFAC 3 concepts included standard-like content within the concepts.
- A7. On August 12, 1999, FASAB published an outline of SFFAC 3 in Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, to require MD&A as part of the agency financial report. The Board expected agencies to consider the standard-like content in SFFAC 3 in conjunction with SFFAS 15 when preparing MD&As. Practice has shown that agencies have relied primarily on SFFAS 15 when preparing MD&As.
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- A9. To achieve these goals, the Board first identified MD&A objectives by analyzing the four reporting objectives found in SFFAC 1, *Objectives of Federal Financial Reporting*—budgetary integrity, operating performance, stewardship, and systems and controls—in conjunction with SFFAC 3. The Board then drafted an MD&A vision framework.
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Commented [GR6]: Non-technical edit for consistent ordering with how characteristics in MD&A paragraphs 8-11.

Commented [GR7]: Non-technical edit for consistency with an update recommended for MD&A par. A8

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

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BOARD APPROVAL

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RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
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ATTACHMENT 6

Ballot for Statement of Federal Financial Accounting Concepts (SFFAC)10

OMNIBUS CONCEPTS AMENDMENTS 2024

AMENDING SFFAC 2 WITH NOTE DISCLOSURES AND MD&A
CONCEPTS AND RESCINDING SFFAC 3



Date: May 31, 2024

To: Members of the Board

From: Monica R. Valentine, Executive Director

Subject: **Ballot for Statement of Federal Financial Accounting Concepts (SFFAC) 10, Omnibus Concepts Amendments 2024, Amending SFFAC 2 with Note Disclosures and MD&A Concepts and Rescinding SFFAC 3 (SFFAC 10)**

The following is a ballot for SFFAC 10. Please enter your name in the space provided below and indicate your approval or disapproval. Once staff reviews the ballot draft during the June 2024 meeting members may present their ballot at the Board meeting. Alternatively, members may e-mail their ballot to valentineM@fasab.gov with an e-mail copy to Robin Gilliam at gilliamr@fasab.gov.

Ballots are due by **June 24, 2024**. Members not responding by **June 28, 2024**, will be considered to have abstained. If you decide to write a dissent, please notify staff immediately and provide your written dissent as soon as possible but no later than **June 6, 2024**. Any dissents received will be circulated to other members as soon as possible so that they may consider the views of the dissenting member.

Board member:

Date:

I approve SFFAC 10 ☐

I do not approve SFFAC 10 ☐

ATTACHMENT

Pre-Ballot Draft

Management's Discussion and Analysis

Rescinding and Replacing SFFAS 15

May 8, 2024

– Clean Version –



May 2024 MD&A Pre-Ballot Draft
clean version

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESCINDING AND REPLACING SFFAS 15

Statement of Federal Financial Accounting Standards

Pre-Ballot Draft

September XX, 2024

Public comments are not requested on this draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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SUMMARY

This Statement updates the guidance for management's discussion and analysis (MD&A). In 1999, the Federal Accounting Standards Advisory Board (FASAB or "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. 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 improves MD&A guidance by

- merging and updating relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls;
- 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;
- encouraging flexibility for management to efficiently and effectively prepare MD&A content, thus reducing preparer burden in the long run; and
- guiding management in how to prepare a balanced, concise, integrated, and understandable MD&A that is useful for all users, especially those who are not experts in federal government financial matters.

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

MATERIALITY

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.¹ 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.

¹ 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

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 management's discussion and analysis (MD&A) of the financial statements and related information.
3. MD&A is required supplementary information (RSI).²

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This paragraph rescinds SFFAS 15, *Management's Discussions and Analysis*, in its entirety.
5. This paragraph replaces SFFAS 15 with the MD&A standards contained herein.³

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 Statement presents guidance in two categories: 1) *Presenting Information in MD&A* and 2) *Information Discussed and Analyzed in MD&A*.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. *Information Discussed and Analyzed in MD&A* explains **what** types of information management should include in MD&A.

² See paragraph 73 of Statement of Federal Financial Accounting Concepts (SFFAC) 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, for concepts about RSI.

³ *Omnibus Concepts Amendments 2024* rescinds SFFAC 3 in its entirety. All relevant standard-like content from SFFAC 3 has been adapted in this Statement. 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*.

PRESENTING INFORMATION IN MD&A

8. To achieve a balanced MD&A, management should include information about events, conditions, trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, or operating performance.
9. To achieve a concise MD&A, management should summarize information that is sufficient to meet the needs of its users. 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* (par. 12 and 13);
 - b. summarizing and referring to relevant detailed information from other areas of the GPFFR;
 - c. summarizing detailed information found in other relevant sources outside of the GPFFR and noting how that information can be obtained;
 - d. limiting duplicative content within the MD&A; and
 - e. presenting only information that is relevant 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 all users, especially those who are not experts in federal government financial matters.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

12. MD&A should discuss and analyze the following information about the reporting entity:
 - a. Organization and mission.
 - b. 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.
 - c. Causes of significant changes and trends in financial condition as explained by business-type activity, social insurance, long-term fiscal projections, and other relevant RSI.

- d. Key performance⁴ results⁵ and their associated costs
 - i. What performance results are key to the reporting entity? For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.
 - ii. What actual costs⁶ did the reporting entity incur to accomplish key performance results?
 - iii. What cost savings, if any, could the reporting entity experience with the accomplishment of key performance?
- e. Significant opportunities⁷ 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.⁸
- f. Significant risks⁹ 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, and 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.

⁴ 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.

⁵ The 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.

⁶ If actual costs are not available, the explanation should provide obligations incurred or associated outlays.

⁷ 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.

⁸ "Plans" are actions the reporting entity expects to execute in the future.

⁹ 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.

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.

APPENDIX A: BASIS FOR CONCLUSIONS

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

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

PROJECT HISTORY

- A1. On June 8, 1999, 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 to guide reporting entities on what to report in MD&A, along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are nonauthoritative and, therefore, not required by GAAP. To require MD&A in the GPFFR, the Board needed authoritative guidance in an SFFAS.¹⁰
- A2. On August 12, 1999, FASAB published SFFAS 15, *Management’s Discussions and Analysis*, which was merely an outline of the standards-like content from SFFAC 3, 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 SFFAC 3 is nonauthoritative *other accounting information* as noted in the GAAP hierarchy,¹¹ agencies relied primarily on SFFAS 15 to prepare their MD&As.
- 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

¹⁰ According to the Forward in the *FASAB Handbook*, “[C]oncepts 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.”

¹¹ SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

stewardship investments improvements projects.¹² 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 performance-related financial information 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

- 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 MD&A reporting objectives and a related vision framework. The Board also conducted an agency pilot to test the application of the objectives and framework.
- 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—within the context of MD&A. The Board also considered the application of those objectives to SFFAC 3.
- A7. The Board then drafted an MD&A vision framework based on the 11 MD&A objectives.

¹² 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.

- A8. The Board conducted a pilot to test the MD&A objectives and framework, whereby agencies voluntarily followed both to prepare a sample MD&A.
- A9. Fourteen agencies—including eleven Chief Financial Officer Act agencies and three significant consolidation agencies—volunteered for the pilot because of their experience with long, burdensome, and/or duplicative MD&As.
- A10. Staff also recruited three additional agencies from the Small Agency Audit Pilot Working Group (hosted by the Department of the Treasury’s Bureau of the Fiscal Service) to assess application of the MD&A objectives and 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. The 17 pilot agencies created sample MD&As based on their fiscal year 2020 financial statements, using only the MD&A objectives and framework.¹³ As a result, the pilot agencies were able to reduce the length of their MD&A between 50–80%. For example, the United States Department of Agriculture reduced its MD&A from 77 to 12 pages and the Federal Trade Commission reduced its MD&A from 46 to 13 pages.
- 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.
- 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, participating agencies 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

¹³ Requirements from the Office of Management and Budget (OMB) 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.

- f. including more hyperlinks to detailed performance data and other important documents.
- A15. The Board 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.
- A16. Based on the results of the MD&A pilot, the Board concluded that the MD&A objectives and vision framework provided a sound foundation for developing these principle-based MD&A standards.

RESCISSION AND REPLACEMENT OF SFFAS 15

- A17. The Board deliberated extensively as to whether to amend or rescind and replace SFFAS 15. While both SFFAS 15 and the standards herein require similar information, the Board concluded that rescission and replacement is the best option to improve the MD&A guidance.
- A18. This Statement improves the MD&A guidance by providing broad, principle-based MD&A standards that merge and update relevant content from SFFAC 3 and SFFAS 15 based on FASAB's reporting objectives for budgetary integrity, operating performance, stewardship, and systems and control.
- A19. This Statement improves the MD&A guidance by addressing the concerns voiced by the community during FASAB's round tables and other outreach from 2017-2018. These users found the MD&A dense, redundant, and complex and wanted financial information about the reporting entity that was easier to understand.
- a. According to respondents, SFFAS 15's requirement for discrete sections contributed to dense, redundant, and complex MD&A information.¹⁴
 - b. The Board concluded that by rescinding SFFAS 15, this Statement removes the requirements for discrete sections and provides broad, principle-based standards that allow reporting entities the flexibility to determine how the information is reported.

¹⁴ SFFAS 15, paragraph 2 states, "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."

A20. Staff's outreach also revealed that financial statement users wanted to remove dense statistical information repeated from GPRAMA reporting and instead wanted cost information about performance.

- a. Preparers included dense statistical information because GPRAMA terminology—*Performance Goals, Objectives, and Results*—was used in paragraph 2 of SFFAS 15.
- b. The Board concluded that focusing instead on key performance results and associated costs would reduce redundancy and preparer burden by eliminating the need for reporting entities to prepare GPRAMA statistical information for both budgetary and financial reporting, which are subject to different timeframes.

A21. Financial statement users also wanted to understand the financial performance in the context of the reporting entity's financial position and condition. The Board concluded that by requiring information about key performance results and associated costs, users would understand what the agency spent in relation to what was achieved, any cost savings for the agency, and any related significant opportunities or risks. The Board concluded that a focus on financial performance would provide users with information as to what affected the reporting entity's financial position and condition.

A22. The Board concluded that this Statement improves the MD&A guidance by providing a concise set of principle-based standards that will

- a. encourage flexibility for how management can prepare MD&A content;
- b. help preparers to focus on identifying and explaining the underlying causes of significant changes to and trends in financial statement balances; and
- c. guide management in how to prepare a balanced, concise, integrated, and understandable MD&A that is useful for all users, especially those who are not experts in federal government financial matters, to understand a reporting entity's financial position and condition.

A23. The Board concluded that as reporting entities gain experience in preparing a balanced, concise, integrated, and understandable MD&A, preparer burden should be reduced in the long run—regardless of the reporting entity's size or consolidation status.

PRESENTING INFORMATION IN MD&A

- 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 key 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 a **concise** MD&A has the following characteristics:
- a. Emphasizes only the vital few or most important matters that explain information required in the *Information Discussed and Analyzed in MD&A* section.
 - b. Summarizes detailed information found within the GPFFR but outside of MD&A with a reference to the GPFFR section. For example, management can provide a reference to a note that is summarized in MD&A.
 - c. Summarizes detailed information found in other relevant sources and notes how that information can be obtained.
 - d. Limits duplicative content, such as regulatory or compliance instructions.
 - i. For example, management can summarize information necessary to understand the reason(s) for significant changes in net cost.
 - ii. For example, management can avoid repeating language from an SFFAS or instructions from Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

- e. Presents information that is only relevant to the reporting entity for the current reporting period, which could include trend information.

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.

A28. 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. For example, MD&A may include a coordinated discussion of budgetary, financial, and operating performance information for key performance results.

A29. The Board's intent is that an MD&A be **understandable** to all users, especially those who are not experts in federal government financial matters.

- 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

A30. 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.

A31. 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.

A32. 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 would 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).
 - i. For example, "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. For example, "disaster recovery efforts from natural disasters in X area of the country during 20XX 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.
- b. Financial condition is broader and more forward-looking than financial position.¹⁵ 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.

A33. The Board concluded that MD&A explains what performance results are key to the reporting entity and the associated costs.

- a. For example, key performance results could be organized based on responsibility segments as reported on the reporting entity's statement of net cost.
- b. Associated costs are actual costs, or if actual costs are not available, the explanation should include obligations incurred or associated outlays. Therefore, MD&A explains how key performance accomplishments and

¹⁵ SFFAC 1, par. 180.

challenges affected budgetary or financing resources during the reporting period.

- c. MD&A focuses on what it costs the agency and its key organizational components to pursue or accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- d. However, the reporting of consolidated government-wide key performance results is **not required** in the MD&A of the CFR.
 - i. Paragraph 6 of SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states, “[T]he 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. Appendix A in the CFR, *Reporting Entity*, provides references to websites where users can review a reporting entity’s discussion of key performance results and challenges.

A34. 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?

A35. 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?

A36. 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 AFR.

STEWARDSHIP INVESTMENTS

- A37. On June 11, 1996, the Board issued SFFAS 8, *Supplementary Stewardship Reporting*, which included a requirement to report required supplementary stewardship information (RSSI). On September 27, 2019, the Board issued SFFAS 57, *Omnibus Amendments 2019*, which eliminated the requirement for reporting RSSI.
- A38. In paragraphs A7-A10 of the basis for conclusions of SFFAS 57, the Board discussed the comment letters from the 11 respondents. The majority of those responders agreed with eliminating RSSI because users did not use it. 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.
- A39. Paragraph A11 of SFFAS 57 indicated that the Board would also consider whether to report stewardship investments in MD&A. As part of the MD&A project, the Board reviewed AFRs within the context of this feedback on SFFAS 57. The Board found 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.
- A40. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management concludes this information is relevant or significant to the reporting entity's financial position or condition.

ADDITIONAL INFORMATION

- A41. The Board acknowledges the updates OMB has made to improve MD&A reporting in Circular A-136. However, FASAB establishes GAAP for the federal government through its pronouncements. This Statement will be level-A guidance in the GAAP hierarchy.
- A42. The Board concluded that this Statement has adapted all relevant standard-like content from SFFAC 3. *Omnibus Concepts Amendments* amends MD&A concepts in SFFAC 2, *Entity and Display*, and rescinds MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.
- A43. 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 that including the MD&A requirements from SFFAS 37 in this pronouncement would cause duplication of information already required in MD&A.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

- A44. FASAB issued the exposure draft (ED), *Management's Discussion and Analysis: Rescinding and Replacing SFFAS 15*, on September 7, 2023, with comments requested by December 7, 2023.
- A45. 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 affected by the particular issue in prior years. 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 entity program offices, professional associations, and nonprofit organizations. The Board did not rely on the number in favor of or opposed to a given position but considered each response and weighed the merits of the points raised.
- A47. 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 with these standards as compared to SFFAS 15.
 - b. Updated paragraph 9.c to better explain that reporting entities should summarize, and reference additional information found outside the GPFFR and how that information can be obtained.
 - c. Updated a footnote to explain that short term plans refer to those plans a reporting entity would implement in the next reporting period
- A48. The Board agreed to consider implementation guidance and training after the issuance of this Statement.
- A49. FASAB issued the ED with an alternative view because of a member's concerns that SFFAS 15 could be amended instead of rescinded and replaced. The member believed that there were only minor differences between the ED and SFFAS 15 and that the ED was more prescriptive than SFFAS 15.
- 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 who indicated 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 the information.

- b. The Board recognizes the similarity between this Statement 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 standard-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based MD&A SFFAS.
- c. Another concern the member noted in the alternative view was that the Board should consider tiered reporting for MD&A.
- d. Many of the respondents agreed with a tiered approach.
 - i. The Board intends for this Statement to 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 it could discuss tiered reporting as a separate project at a future agenda setting meeting because the scope goes beyond reporting for MD&A. The Board also noted that tiered reporting might be difficult to achieve based on work done by other standard setters, such as the Governmental Accounting Standards Board, and individual reporting entities potentially reporting in a different manner from the CFR.
- 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 guidance and training after the issuance of this Statement.

BOARD APPROVAL

A50. This Statement was [TBD approved] for issuance by all members.

APPENDIX B: ABBREVIATIONS

AFR	Agency Financial Report
CFR	Consolidated Financial Report of the United States Government
ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
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 Supplementary 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

Pre-Ballot Draft

Omnibus Concepts Amendments 2024

Amending SFFAC 2 with Note Disclosures and MD&A
Concepts and Rescinding SFFAC 3

May 8, 2024

– Clean Version –



OMNIBUS CONCEPTS AMENDMENTS 2024

AMENDING SFFAC 2 WITH NOTE DISCLOSURES AND MD&A CONCEPTS AND
RESCINDING SFFAC 3

Statement of Federal Financial Accounting Concepts XX

Pre-Ballot Draft

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:

- [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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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

Statements of Federal Financial Accounting Concepts (SFFACs) set forth objectives and fundamentals on which financial accounting and reporting standards are based. The objectives identify the goals and purposes of financial reporting, and the fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

Concepts statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives. Also, knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting.

The conceptual framework addresses many of the fundamentals needed to support standards setting. FASAB developed the core of its conceptual framework in the early 1990s. At that time, financial management legislation and administrative directives focused on component entity reporting. Hence, FASAB's second concepts statement, *Entity and Display*, focused on the basis for defining a reporting entity and the display of component entity financial statements. Other concepts statements address financial reporting objectives, qualitative characteristics of information, the intended audience for the financial report of the U.S. Government (FR), elements of accrual basis statements and their measurement attributes, communication methods, and managerial cost accounting.

Through its ongoing conceptual framework project, FASAB has reviewed its early concepts statements and is establishing new statements as needed. The *FASAB Handbook of Accounting Standards and Other Pronouncements, As Amended* (FASAB Handbook) provides a full discussion of FASAB's SFFACs. The FASAB Handbook discusses the difference between SFFACs and generally accepted accounting principles and can be accessed at <https://fasab.gov/accounting-standards/>.

SUMMARY

This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) expands upon concepts in SFFAC 2, *Entity and Display*, to include the types of information that may be presented in note disclosures and the role of note disclosures as an integral part of the basic financial statements. This Statement also amends management's discussion and analysis (MD&A) concepts in SFFAC 2 and rescinds MD&A concepts in SFFAC 3, *Management's Discussion and Analysis*, to consolidate MD&A concepts into one SFFAC.

Users rely on note disclosures to better understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Note disclosures are necessary to enhance understandability of the financial statements for users and to provide insight into the complexity and amount of information reported. This Statement amends paragraph 68 of SFFAC 2 by adding a set of principles for the Board to use to reduce repetition and improve relevance, clarity, comparability, and consistency for note disclosures.

Users rely on MD&A to understand management's insights about the reporting entity's financial position, financial condition, and performance of the reporting entity in the context of the entity's mission, organization, and key financial and performance information. This Statement consolidates guidance for the Board on developing MD&A standards by amending paragraph 69 of SFFAC 2 and by rescinding SFFAC 3.

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CONCEPTS

SCOPE

1. This Statement of Federal Financial Accounting Concepts (Statement or SFFAC) amends concepts related to the role of note disclosures as an integral part of the basic financial statements and the types of information to present. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) may use these concepts to help identify efficient and effective ways to disclose information supporting the fair presentation of amounts in the financial statements.
2. This Statement consolidates the Board’s concepts for management’s discussion and analysis (MD&A) by rescinding SFFAC 3, *Management’s Discussion and Analysis*, and amending paragraph 69 of SFFAC 2, *Entity and Display*, to provide a conceptual overview of information that may be included in the MD&A.

NOTE DISCLOSURE AMENDMENTS TO PARAGRAPH 68 OF SFFAC 2

3. The header above paragraph 68 is amended as follows:

“~~Other Information~~” “Note Disclosures”
4. This paragraph rescinds paragraph 68 of SFFAC 2 in its entirety and replaces it with the following text:

Note Disclosures

68. Financial information is also conveyed through the use of **note disclosures**, which are an integral part of the basic financial statements. Note disclosures may explain, describe, or supplement one or more of the following:

- Information recognized in financial statements.
- Information about the reporting entity.
- Information about events and conditions not recognized in the statements.
- Information to assist in understanding and assessing the government’s accountability.^{9A}

The types of information that may be presented in note disclosures include:

- A. **Relevant information integral to understanding information recognized in financial statements**—Note disclosures may explain or further describe information recognized in financial statements. Note

^{9A} Refer to SFFAC 1, *Objectives of Federal Financial Reporting*, par. 71-104 for a further understanding of accountability.

disclosures may include, but are not limited to, such information as the nature of or terms used to describe an item, restrictions on the use of an item, relevant disaggregation of an item, uncertainties in measuring items, methods and assumptions used in estimating an item, and/or significant accounting policies affecting items.

B. Context or background information regarding the reporting entity and its activities—Note disclosures may supplement financial statements to provide information regarding the entity’s mission, programs, significant relationships with other entities, and any special restrictions or privileges that apply to the entity in executing programs and the accountability for resources. Note disclosures may also communicate information regarding the legislative purpose behind governmental activities and the related financial reporting effect.

C. Information about past events and current conditions not recognized—Note disclosures may present information about past events, current conditions, and uncertainties that have not been recognized in financial statements but may affect the entity’s future resources or use of resources. This information may be used to assess the government’s ability to continue operating at its current levels.

D. Information to demonstrate accountability—Note disclosures may also provide quantitative and qualitative information that demonstrates an entity’s accountability to its citizens, including information that may be helpful in assessing the effects of management’s decision-making on the entity.

MD&A AMENDMENTS TO PARAGRAPH 69 OF SFFAC 2

5. This paragraph amends SFFAC 2 by inserting the title **Required Supplementary Information** above paragraph 69.

6. This paragraph rescinds paragraph 69 in its entirety and replaces it with the following text:

69. In addition to the financial information conveyed in basic information, general information about the reporting entity is included as required supplementary information (RSI):

A. RSI includes management’s discussion and analysis (MD&A) of the reporting entity. MD&A is an important vehicle to communicate management’s insights about the reporting entity, including the reliability of information reported, to increase the understandability and usefulness of the agency financial report.

- B. MD&A summarizes information 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.

RESCISSION OF SFFAC 3

- 7. This paragraph rescinds SFFAC 3 in its entirety.

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

AMENDING NOTE DISCLOSURE CONCEPTS

- A1. FASAB added the note disclosures project to its agenda in February 2017 with the objective of improving the relevance, clarity, consistency, and comparability of note disclosures among federal entities. Staff formed a task force to assist the Board with the related research. The Board also conducted a survey on note disclosures in which a majority of respondents indicated that materiality-based judgment might assist them in eliminating redundant and unnecessary note disclosures. Thus, the Board developed materiality concepts and on May 4, 2020, issued SFFAC 9, *Materiality*.
- A2. SFFAC 9 clarified existing materiality concepts by discussing the needs of reasonable users, clarifying the concept of misstatement, and identifying specific federal environment considerations.
- A3. Next, the Board focused on a two-phased approach for improving note disclosures. During the initial phase, the Board developed note disclosures concepts; in the second phase, the Board will apply the concepts to reexamine existing note disclosure requirements.
- A4. Note disclosures contribute to the usefulness of financial statement line items and help users understand the information in the proper context.¹ Note disclosures also help users understand the underlying assumptions and uncertainties inherent in the process of measuring the items.²
- A5. This Statement amends note disclosures concepts to assist the Board in the reexamination of note disclosure requirements in existing standards, as well as in the development of future requirements.

¹ SFFAC 1, par. 158.

² SFFAC 1, par. 160.

CONSOLIDATING MD&A CONCEPTS AND RESCINDING SFFAC 3

- A6. On June 8, 1999, FASAB issued SFFAC 3 as part of the initial federal financial framework. The SFFAC 3 concepts included standard-like content within the concepts.
- A7. On August 12, 1999, FASAB published an outline of SFFAC 3 in Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussions and Analysis*, to require MD&A as part of the agency financial report. The Board expected agencies to consider the standard-like content in SFFAC 3 in conjunction with SFFAS 15 when preparing MD&As. Practice has shown that agencies have relied primarily on SFFAS 15 when preparing MD&As.
- A8. The Board's goals for the MD&A project were to consolidate relevant content from SFFAC 3 and SFFAS 15 into principle-based MD&A standards. The MD&A standards will guide preparers to provide users with balanced, integrated, concise, and understandable information 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.
- A9. To achieve these goals, the Board first identified MD&A objectives by analyzing the four reporting objectives found in SFFAC 1, *Objectives of Federal Financial Reporting*—budgetary integrity, operating performance, stewardship, and systems and controls—in conjunction with SFFAC 3. The Board then drafted an MD&A vision framework.
- A10. The Board requested that staff conduct a pilot to test the MD&A objectives and vision framework. Staff conducted the pilot from January through March 2021, with 17 pilot agencies and 16 users.
- A11. In June 2021, the Board determined the MD&A pilot was successful and the objectives and vision framework were sufficient for consolidating relevant content from SFFAC 3 and SFFAS 15 into principle-based MD&A standards.
- A12. This Statement rescinds SFFAC 3. The Board has consolidated relevant MD&A concepts into paragraph 69 of SFFAC 2.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

- A13. FASAB issued the exposure draft (ED), *Omnibus Concepts Amendments*, on August 25, 2023, with comments requested by November 27, 2023.
- A14. 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. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

- A15. FASAB received 12 comment letters from federal entity users, federal entity preparers, federal entity program offices, professional associations, and nonprofit organizations. The Board did not rely on the number in favor of or opposed to a given position but considered each suggestion and weighed the merits of the points raised.
- A16. The majority of respondents generally agreed with the proposals. Specifically, respondents generally agreed with the amendments to paragraph 68 that identified information the Board may include when developing note disclosures. Respondents generally agreed with the amendments to paragraph 69 that consolidated concepts for MD&A and rescinded SFFAC 3.
- A17. The Board considered other input provided by respondents that did not result in modifications to the Statement.

BOARD APPROVAL

- A18. This Statement was [TBD approved] for issuance by all members.

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
MD&A	Management's Discussion and Analysis
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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