

Exposure Draft SIG 64.1, Guidance for Implementing SFFAS 64:  
Management’s Discussion and Analysis

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The proposed SIG 64.1 would assist reporting entities in implementing Statement of Federal Financial Accounting Standards (SFFAS) 64, *Management’s Discussion and Analysis*.

**QFR 1** The proposed SIG 64.1 provides information on how to achieve a balanced, concise, integrated, and understandable MD&A.

**Do you agree or disagree that the proposed SIG 64.1 provides information to implement a balanced, concise, integrated, and understandable MD&A? Please provide the rationale for your answer.**

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QFR1 Response: Generally agree, with suggested enhancements.

The proposed SIG 64.1 provides useful principles for achieving a balanced and understandable MD&A. Additional clarity would assist preparers in determining the appropriate level of narrative aggregation.

In practice, MD&A narratives can become overly granular, replicating office-level program descriptions that do not affect financial position or net cost at the enterprise level. This produces verbose year-over-year rollforward content that obscures key financial drivers without adding decision usefulness.

A useful aggregation principle would be: narrative detail is warranted when it explains a cause of significant change in financial position, condition, or cost trends; detail that does not connect to such a cause may be omitted. Examples illustrating how this principle applies to enterprise-level versus program-level description would reduce variability in practice.

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**QFR 2** The proposed SIG 64.1 provides information about how reporting entities may discuss mission and organization in MD&A.

**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss mission and organization in MD&A? Please provide the rationale for your answer.**

QFR2 Response: Generally agree, with clarification requested regarding date consistency and cross-referencing.

The proposed guidance appropriately supports concise discussion of mission and organization. However, the guidance's encouragement to cross-reference agency websites creates a reporting-date consistency problem that should be addressed directly.

Agency websites reflect the most current organizational structure, not the structure as of September 30. Management-oriented annual reports may follow a different publication cycle. As written, the guidance could result in MD&A cross-referencing organizational

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information that post-dates the financial reporting period, creating a factual inconsistency within the audited financial report.

Clarifying that cross-references to external materials do not represent audited assertions about the reporting entity's structure as of the financial statement date — and that preparers should note this limitation when linking to dynamic content — would preserve both conciseness and reporting-date integrity.

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**QFR 3** The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze financial position and financial condition.

**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze financial position and condition in MD&A? Please provide the rationale for your answer.**

QFR3 Response: Generally agree, with suggested clarification to reinforce analytical expectations.

The proposed SIG 64.1 appropriately emphasizes analysis rather than description. Two clarifications would strengthen implementation.

First, preparers may default to restating financial statement line items without identifying the underlying drivers of change. A statement that "net cost increased due to higher program expenses" remains descriptive unless it explains whether the increase reflects volume of services delivered, input cost changes, new statutory requirements, timing of obligations, or one-time events. Examples illustrating driver-based explanation — and distinguishing recurring trends from non-recurring events — would better operationalize the analytical intent of SFFAS 64.

Second, in mission-driven entities, increases in net cost may reflect expanded service delivery or enhanced program execution rather than financial deterioration. The guidance would benefit from examples showing how preparers can explain cost increases in a way that distinguishes mission-consistent growth from adverse financial trends. Without such framing, preparers may understate programmatic accomplishments or readers may misinterpret cost growth as a negative indicator.

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**QFR 4** The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze key performance results and associated costs.

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**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze key performance results and associated costs in MD&A? Please provide the rationale for your answer.**

QFR4 Response: Partially agree; further implementation clarification would enhance consistency.

Linking cost information to performance outcomes remains one of the more challenging aspects of MD&A preparation. The guidance could be strengthened in two respects.

First, cost and performance discussion is often presented in separate sections, producing narratives that describe financial results and mission results independently rather than explaining the relationship between them.

Second, the Statement of Net Cost is organized by program or responsibility segment, while strategic mission outcomes frequently draw costs from multiple segments. The SIG's suggestion to use the Statement of Net Cost as a starting point may therefore produce a financial presentation that does not correspond to the agency's mission architecture. In such cases, program-line analysis may obscure rather than illuminate the mission story.

A useful implementation principle would be: when key performance results cut across multiple cost segments, preparers may aggregate costs to the outcome level and explain the basis for aggregation. Illustrative examples showing multi-year net cost trends organized by strategic outcome — with explanation of how those costs relate to program lines — would promote analytical linkage without prescribing a single format.

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**QFR 5** The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze significant opportunities and risks in MD&A.

**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze significant opportunities and risks? Please provide the rationale for your answer.**

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QFR5 Response: Generally agree, with suggested clarification regarding financial statement relevance and forward-looking constraints.

The proposed guidance appropriately encourages discussion of significant opportunities and risks. Two clarifications would improve consistency in application.

First, preparers may include broad operational or strategic risks without explaining their expected financial implications. For example, a narrative may describe workforce challenges in detail without indicating whether those risks are expected to result in increased personnel costs, service reductions, or impacts on budget execution. Risk and opportunity discussion that does not connect to financial position, net cost, or resource sustainability does not serve the financial reporting purpose of MD&A.

Second, forward-looking discussion in mission-driven entities is constrained by appropriations uncertainty. Because future financial outcomes depend substantially on Congressional funding decisions, preparers face a genuine difficulty in framing financial implications that are contingent on future appropriations actions. Clarification that preparers may describe reasonably foreseeable financial implications under current funding assumptions, while acknowledging appropriations contingency, would provide useful operating guidance.

Taken together, these clarifications would focus MD&A opportunities and risks discussion on content that is both financially grounded and operationally realistic for federal preparers.

**QFR 6** The proposed SIG 64.1 provides information about how reporting entities may discuss and analyze management's 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.

**Do you agree or disagree that the proposed SIG 64.1 provides information for how to discuss and analyze management's 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? Please provide the rationale for your answer.**

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QFR6 Response: Generally agree, with suggested clarification regarding alignment and reporting cycle sequencing.

The proposed guidance provides useful direction on discussing significant weaknesses and internal control matters. Two clarifications would strengthen implementation.

First, MD&A sections may restate the detailed language of audit findings rather than explaining their implications for financial reporting reliability. For example, a narrative may repeat technical descriptions of control deficiencies without clarifying whether the weakness affected reported balances, required significant audit adjustments, or posed risk primarily to operational processes rather than financial statement accuracy.

Second, MD&A drafting typically occurs before the audit report is finalized. A preparer who drafts in August may describe a condition that the November audit report characterizes differently — or more severely — creating an inconsistency within the same annual financial report. Guidance acknowledging this sequencing constraint and advising how preparers should handle the gap between draft and final audit findings would address a recurring operational challenge.

Illustrative examples showing how to summarize material weaknesses by their effect on financial reporting reliability — rather than by their technical description — would reduce duplication and improve alignment across reporting documents.

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**QFR 7 Do you wish to comment on any other aspects of this proposal?**

Two items merit attention beyond the specific QFRs above.

First, the guidance would benefit from a non-mandatory illustrative format demonstrating cost-performance linkage for entities whose strategic outcomes span multiple program cost segments. Such a format — showing multi-year net cost trends organized by outcome with a brief narrative explanation of cost directionality — would be widely applicable and reduce implementation variability without being prescriptive.

Second, as agencies increasingly cross-reference web-based materials, implementation guidance should explicitly acknowledge that such materials are dynamic and do not

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constitute components of the audited financial reporting package. This clarification directly supports the reporting-date integrity concern raised in QFR2 and would benefit preparers across all reporting entities.

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