

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

#5 - AGA

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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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The examples in paragraph 16 appear to be limited to use of hyperlinks. We do not view hyperlinks to information located outside of the financial statements as an acceptable substitute for information that is required to be included within the financial statements. This is because information located outside the financial statements may not be presented using the same format, labels, context, or scope as the financial statements, and hyperlinks may break or reference content that changes over time. For these reasons, we suggest that guidance be expanded to explicitly state that hyperlinks should be used only to provide access to additional details or supplemental information that is not required to be presented within the financial statements. For example, consistent with SFFAS 64 paragraph 9.c, we believe that the MD&A must include the required *summary* information, while hyperlinks may only be used to refer to *detailed* supporting information.

To support compliance with the requirement of paragraph 9.c to indicate “how that information can be obtained,” it would be helpful if the guidance could address appropriate hyperlink descriptions. Specifically, our view is that hyperlinks should not rely on generic phrases such as “click here.” Rather, the linked text should identify the type, source, and date (where applicable) of the referenced material. For example: “For details, see the agency’s Press Release on the project dated April 23, 2025.” Descriptive hyperlink text allows readers to understand the underlying source and facilitates retrieval of the information if the hyperlink is broken.

In paragraph 25, we suggest adding guidance that acronyms should be spelled out upon first use or minimized. In addition, the guidance should clarify how plain language is to be applied in the context of a “reasonable user” (that is, a user who possesses appropriate knowledge and understanding of the federal financial reporting environment). Recognizing that MD&A may discuss inherently complex or technical matters, we suggest that the guidance acknowledge that plain language should be used only to the extent possible without making MD&A overly long or less precise. In other words, plain language considerations should generally be subordinate to considerations of accuracy and conciseness.

Finally, we noticed minor typographical issues in paragraph 22.d (components) and paragraph 25 (“plain language” in different font).

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.

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No comments.

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.

We found paragraphs 35 and 45 to be confusing for several reasons. First, paragraphs 35 and 45 appear to be duplicative, rather than clearly differentiating how financial *position* and *condition* are to be analyzed. Second, as written, paragraphs 35 and 45 suggest that analysis of significant changes and trends should be based on comparisons of current year beginning and ending balances. Such comparisons are limited to explaining changes in assets and liabilities but would not be applicable to revenues, expenses, or trend analysis. We believe MD&A analysis should generally compare current year ending balances and amounts with the prior year, regardless of whether comparative statements are presented. If guidance regarding comparative financial statements is intended, it should be stated directly and separately from guidance on analytical methodology. For example, "Discussion about significant changes is in reference to the prior year financial statements, regardless of whether comparative statements are presented. For a comparative presentation of FYE 2026 and 2025, MD&A requirements related to the current year would refer to FYE 2026 and the prior year would refer to FYE 2025, the same as if it was not a comparative presentation."

We suggest adding guidance in paragraph 39 on factors to consider when determining the number of years to present in MD&A. For example, factors could include whether the years presented are sufficiently comparable to make for a meaningful discussion of trends and explanation of changes relevant to the current year. For example, if an agency had material one-time events in the prior year, presenting four or five years could show the trend before the one-time event and be relevant to explaining trend changes in the current year. However, if the material one-time events occurred three or four years ago, the agency may want to limit years to only those after the event, so that old variances do not distract from the discussion of changes and trends relevant to the current year.

The chart in paragraph 46 is confusing due to the use of agency-specific terms "income, cost, and ending balances." While these terms may be meaningful for the

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Social Security Administration, our group was having a hard time relating these terms to other federal agencies. We recommend that the Charts in paragraphs 40 and 46 be explicitly identified as illustrative and presented alongside the associated narrative explanation. Doing so would clarify the intent of the charts, provide necessary context, and help ensure they are understood as examples rather than prescriptive models. Or alternatively, different examples could be used that are more relevant to multiple agencies.

We also suggest that this section be expanded to clarify that MD&A may need to discuss material estimates that are central to the presentation of the agency's financial statements, even when *changes* in those estimates during the current year are not material. The significance of an estimate may arise from its size, complexity, or sensitivity to assumptions, rather than from current-year volatility alone. For instance, Credit Reform reporting entities may need to discuss key subsidy and cash flow estimates to provide meaningful context for the financial statements, even in years when related changes are minimal. Such discussion can enhance users' understanding of the agency financial statements and the factors that could affect future results.

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

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.

No comments.

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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Guidance might benefit from addition of examples addressing risks arising from constraints. In some cases, agencies may experience performance challenges due to resource constraints like staffing reductions or system limitations. In other cases, the administration may request agencies to delay certain actions, such as collection of receivables. While these situations may not result in an immediate or directly measurable cost, the forgone outcomes or increased risk may be relevant to understanding performance and financial results. Including an example would help clarify that MD&A may discuss such opportunity costs and risks even when no actual cost impact is recorded. For example, management may explain how staffing reductions affected the timeliness or completeness of due process activities related to the collection of receivables, the resulting delays in recoveries, increased receivable balances and risk of uncollectibility, and lost opportunities to improve financial outcomes.

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.

Paragraph 64 appears to suggest a boilerplate assertion. If this paragraph is meant to describe the scope of control deficiencies or instances of noncompliance that management should consider relevant to financial reporting for purposes of the MD&A, the guidance should be clearer.

The guidance would be more helpful if it included illustrative narratives for situations in which there are no significant weaknesses in controls or instances of noncompliance to discuss, as well as situations in which such matters exist and warrant discussion.

In addition, it would be helpful to include guidance on whether and how management's consideration of the significance of control weaknesses or instances of noncompliance for purposes of MD&A would relate to audit findings addressing these topics.

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Finally, we suggest that the guidance be enhanced by providing illustrative example language that management may use when discussion of planned initiatives or desired improvements is contingent on the availability of future funding.

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

Overall, we found that information in the proposed SIG 64.1 was of limited usefulness, since it did not seem to add much to the standard itself.

Regarding paragraphs 1-5, we appreciate that the guidance addresses the definition of "significant" and agree that it is a matter of professional judgment. However, we would like further clarification, particularly with respect to how significance relates to the existing concept of materiality. For example, we found recent FASAB training to present clearer and more helpful guidance than the exposure draft (see [Transitioning MD&A from SFFAS 15 to SFFAS 64](#), slide 11). In our view, significance is evaluated within the context in which it is being considered (that is, in relation to a specific requirement of standards), is an individual consideration, and is based on the importance of information to users. This is distinct from materiality, which is evaluated in relation to the reporting entity as a whole, is considered both individually and in the aggregate, and is based on the effect information may have on users' judgments. Accordingly, we believe "significant" represents a different *type* of evaluation, rather than a different level of severity that is more or less than "material." We also believe that the guidance should describe that judgments about significance should consider both quantitative and qualitative factors. This is especially important in the context of MD&A, where information may be non-financial in nature.

Finally, we found the examples in paragraph 5 to be unhelpful because they label information as "significant" without explaining or modeling the factors that make the information significant. For example, management may decide that information about a natural disaster is significant because it was important to management's analysis of financial position and operating performance, or because management believes the matter warrants the attention of report users.