

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

RESCINDING AND REPLACING SFFAS 15

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by December 7, 2023

September 7, 2023

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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September 7, 2023

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

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards titled *Management’s Discussion and Analysis: Rescinding and Replacing SFFAS 15*. Specific questions for your consideration appear on page 7-8, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by December 7, 2023.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments using the online questions for respondents (QFR) link below. If you have problems with the online QFRs please contact us at fasab@fasab.gov or (202) 512-7350. We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at (202) 512-7350 to determine if your comments were received.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

George A. Scott
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) is proposing to update the guidance for management’s discussion and analysis (MD&A). This proposal would provide a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable¹ laws and regulations.

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

In 1999, the Board first published conceptual guidance and standards for preparing the MD&A in Statement of Federal Financial Accounting Concepts (SFFAC) 3, *Management’s Discussion and Analysis*, and in Statement of Federal Financial Accountant Standards (SFFAS) 15, *Management’s Discussions and Analysis*.

The Board intended for management to refer to both SFFAC 3 and SFFAS 15 to prepare the MD&A because together they contained complete guidance pertaining to both form (how to report information) and content (what information to report). However, reporting entities predominantly referred only to SFFAS 15 because concepts (SFFAC 3) are not authoritative.² 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.

The Board is proposing these standards to provide a principle-based³ approach that merges and updates relevant content from SFFAC 3 and SFFAS 15 and is consistent with FASAB’s reporting objectives for budgetary integrity, operating performance, stewardship, and systems and controls. This proposal would provide more flexibility for reporting MD&A, reduce preparer burden and redundancy, and enhance transparency to present an MD&A that is balanced, integrated, concise, and understandable.

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

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

³ Principle-based approach refers to relying on high-level, broadly stated principles rather than detailed, prescriptive rules.

MATERIALITY

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial.⁴ 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.

⁴ 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.

TABLE OF CONTENTS

Executive Summary	4
Questions for Respondents	7
Proposed Standards	9
Scope.....	9
Rescission and Replacement of SFFAS 15.....	9
Purpose of MD&A	9
Presenting Information in MD&A.....	10
Information Discussed and Analyzed in MD&A	10
Effective Date.....	12
Appendix A: Basis for Conclusions	13
Project History.....	13
Development of Proposed MD&A Standards.....	14
Proposed MD&A Standards.....	16
Presenting Information in MD&A.....	17
Information Discussed and Analyzed in MD&A	19
Stewardship Investments.....	21
Rescission and Replacement of SFFAS 15.....	21
Alternative View of Ms. Johnson and Mr. McNamee	23
Appendix B: MD&A Objectives	26
Appendix C: Draft MD&A Vision Framework.....	34
Appendix D: Abbreviations	35

QUESTIONS FOR RESPONDENTS

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

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

The questions in this section are available to answer online at https://gaosurvey.gao.gov/jfe/form/SV_6thq8SVhOJtNtWu. Specific instructions for providing your responses to this exposure draft are available once you enter the online questions. If you have any issues responding to the questions online, please contact us at fasab@fasab.gov or (202) 512-7350.

All responses are requested by **December 7, 2023**.

Q1. The Board proposes a comprehensive set of standards to guide management in how to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. Please refer to paragraphs 8-13.

Do you agree, partially agree, or disagree that the proposed standards will provide adequate guidance for management to present an MD&A that is balanced, integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations? Please provide the rationale for your answer.

Q2. The Board believes this proposal will reduce preparer costs and burden.

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

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

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

Q4. The Board explains **what** information management should include in MD&A. Please refer to paragraphs 12-13.

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

Q5. The Board proposes to rescind and replace SFFAS 15. The Board believes that the MD&A proposal offers improvements over the standards in SFFAS 15. The improvements include reducing preparer burden and adopting broad principle-based guidance to assist agencies in presenting a balanced, concise, integrated, and understandable MD&A.

Two Board members provided alternative views. One member provided an alternative view addressing the need for this Statement (see par. A47-A53). Two members provided an alternative view on tiered reporting (see par. A54).

Please refer to paragraphs A47 – A55 to review the alternative views as presented.

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

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

PROPOSED STANDARDS

SCOPE

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

RESCISSION AND REPLACEMENT OF SFFAS 15

4. This Statement proposes to rescind SFFAS 15, *Management's Discussions and Analysis*.
5. This Statement proposes to replace SFFAS 15 with the proposed management's discussion and analysis (MD&A) standards in this Statement.⁶

PURPOSE OF MD&A

6. The purpose of MD&A is to increase the understandability and usefulness of a reporting entity's GPFFR by summarizing management's insights about its organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations. This proposed Statement presents guidance in two categories: 1) *Presenting Information in MD&A* and 2) *Information Discussed and Analyzed in MD&A*.
7. *Presenting Information in MD&A* explains **how** management should present a balanced, integrated, concise, and understandable MD&A. *Information Discussed*

⁵ See paragraph 73 of SFFAC 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, for concepts about RSI.

⁶ The *Omnibus Concepts Amendments* exposure draft proposes to rescind Statement of Federal Financial Accounting Concepts (SFFAC) 3 given that the relevant content from SFFAC 3 has been adapted in this proposal and only another SFFAC can rescind an existing SFFAC. In addition, this Statement does not eliminate or otherwise affect SFFAS 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

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

PRESENTING INFORMATION IN MD&A

8. To achieve a balanced MD&A, management should include information about events, conditions, trends, or a combination of the three that had or might have a significant positive or negative effect on the reporting entity's financial position, financial condition, or operating performance.
9. To achieve a concise MD&A, management should summarize information that is sufficient to meet the needs of its users by
 - a. emphasizing the vital few matters related to the information required in paragraphs 12 and 13;
 - b. summarizing and referring to relevant detailed information from other areas of the GPFRR;
 - c. indicating the availability of additional information, such as from other audited documents or unaudited federal government documents;⁷ and
 - d. limiting the use of boilerplate language by only presenting information that is relevant to the reporting entity's current financial report.
10. To achieve an integrated MD&A, management should combine financial and non-financial information and qualitative and quantitative information to present a comprehensive and unified discussion and analysis.
11. To achieve an understandable MD&A, management should present content in plain language, organize information by related content, and, as appropriate, include charts, tables, graphs, or any combination thereof to enhance the understanding of the MD&A for those who may not have an extensive knowledge of U.S. government operations nor an extensive financial or accounting background.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

12. MD&A should discuss and analyze the following information about the reporting entity:
 - a. the organization and mission;
 - b. the causes of significant changes and trends in

⁷ Management should provide a note that explains when referenced information is unaudited.

- i. financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources; and
- ii. financial condition as explained by
 - 1. business-type activity, social insurance, long-term fiscal projections; and
 - 2. other relevant required supplementary information;⁸
- c. the key performance⁹ results¹⁰ and the associated costs;
- d. the significant opportunities¹¹ identified by management to enhance performance results, plans to leverage such opportunities, and the potential effect on financial and budgetary results of carrying out those plans;¹²
- e. the significant risks¹³ identified by management that have a potentially negative effect on performance results, plans to mitigate such risks, and the potential effect on financial and budgetary results of carrying out those plans.

⁸ GAAP includes reporting of RSI for items such as heritage assets or federal oil and gas resources; however, this may change periodically.

⁹ 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.

¹⁰ The consolidated financial report of the U.S. Government (CFR) is not required to provide an analysis of consolidated government-wide performance results but may refer to the availability of performance information in agency financial reports.

¹¹ 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.

¹² “Plans” are actions the reporting entity expects to execute during the current reporting period (short term) and into the future (long term).

¹³ 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.

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

EFFECTIVE DATE

14. The requirements of this Statement are effective for reporting periods beginning after September 30, 2024. 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 content¹⁴ to guide reporting entities on what to report in management’s discussions and analysis (MD&A), along with concepts to guide the Board on developing standards for MD&A. However, SFFACs are non-authoritative and, therefore, not required by generally accepted accounting principles (GAAP). To require MD&A in the general purpose federal financial report (GPFFR), the Board needed authoritative guidance in a Statement of Federal Financial Accounting Standards (SFFAS).
- A2. On August 12, 1999, FASAB published SFFAS 15, *Management’s Discussions and Analysis*, which was merely an outline of SFFAC 3 standards-like content, to require MD&A as part of the GPFFR. The expectation was that preparers would use both SFFAC 3 and SFFAS 15 to prepare the reporting entity’s MD&A. However, given that this concepts statement is *non-authoritative other accounting information* as noted in the GAAP hierarchy,¹⁵ agencies relied primarily on SFFAS 15 to prepare MD&As.

¹⁴ 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...

¹⁵ SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*

- A3. During 2017 and 2018, staff conducted an online survey and in-person round tables for both the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects.¹⁶ Round table feedback informed the Board that financial statement users found federal entity MD&As to be dense, duplicative, and complex. Round table participants wanted to understand the financial performance in the context of the reporting entity's financial position and condition. The MD&A included dense statistical information repeated from the Government Performance and Results Modernization Act (GPRAMA) reporting. This did not provide the financial information about performance that users wanted.
- A4. In June 2019, the Board added the MD&A project to its agenda to merge work completed by the risk reporting and reporting model phase I: MD&A and stewardship investments improvements projects. The goals of the MD&A project are to
- a. consolidate standards-like content from SFFAC 3 and standards from SFFAS 15 into one principle-based SFFAS for preparing the MD&A;
 - b. reduce preparer burden by streamlining the MD&A;
 - c. require information about a reporting entity's financial position and condition for a financial focus instead of a statistical focus based on GPRAMA reporting; and
 - d. update guidance to discuss and analyze risk plans and mitigation to explain how the reporting entity will respond to opportunities and uncertainties.

DEVELOPMENT OF PROPOSED MD&A STANDARDS

- A5. The Board developed the proposed MD&A standards by first identifying objectives for what it believes management should report in MD&A.
- A6. The Board identified 11 MD&A objectives by analyzing the four FASAB reporting objectives from SFFAC 1, *Objectives of Federal Financial Reporting*: budgetary integrity, operating performance, stewardship, and systems and controls. The Board also considered the application of those objectives to SFFAC 3. See Appendix B: MD&A Objectives.
- A7. The Board then drafted an MD&A vision framework based on the 11 MD&A objectives. See Appendix C: MD&A Draft Vision Framework.

¹⁶ 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 launched a pilot to test the MD&A objectives and framework, whereby agencies voluntarily followed both to prepare a sample MD&A.
- A9. Staff recruited 14 agency pilot participants—including 11 Chief Financial Officer (CFO) Act agencies and three significant consolidation agencies—using the following FASAB listserv call:

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

- A10. Staff also recruited three additional agencies from the Small Agency Audit Pilot Working Group (hosted by Fiscal Service) to assess application of the vision framework across reporting entities of varying sizes for a total of 17 pilot agencies.
- A11. Staff conducted the pilot from January through March 2021.

- a. The 17 pilot agencies created sample MD&As based on their fiscal year (FY) 2020 financial statements, using only the MD&A objectives and framework.¹⁷ 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 (84%) and the FTC reduced its MD&A from 46 to 13 pages (70%).

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

- i. At the conclusion of the pilot, one pilot agency gave the following feedback: “This approach is refreshing and on point for the Agency Financial Report (AFR). The MD&A currently pulls attention AWAY from the financial statements and note disclosures by muddying the waters with too much other program and miscellaneous information. The changes will allow us to frame the agencies mission in the context of the financial statements and adds value to financial statement presentation rather than detracting from it.”
- ii. Staff did not receive any negative feedback from the smaller pilot agencies about MD&A reporting burden. In fact, these agencies highlighted the importance of producing an MD&A that focused on transparency and providing users with comprehensive content about the entity’s mission and accomplishments, as related to their financial position.

¹⁷ Requirements from the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, and AGA’s Certificate of Excellence in Accountability Reporting were not included in the MD&A pilot to allow agencies to test if the MD&A could be streamlined with only the draft MD&A objectives and framework.

- A12. The pilot included 16 user reviewers, including members of the public, academia, federal workforce, and other specialties, to assess four sample MD&As against the Board's framework and objectives.
- A13. In April 2021, agency pilots and user reviewers recommended that a streamlined MD&A could be accomplished by
- a. providing a comprehensive connection between performance, non-financial and financial information, and systems information while avoiding a silo effect of putting information in separate sections;
 - b. focusing on key drivers (for example, COVID-19) that affected performance goals, significant changes in financial statement lines, and management's decisions during the reporting period;
 - c. providing concise and tangible examples about the magnitude of risks and current and planned actions to address them;
 - d. including high-level performance goals that support the current leadership agenda instead of low-level metrics;
 - e. including well labeled trend graphs that integrate performance, financial, and budgetary resource information, and written summaries; and
 - f. including more hyperlinks to detailed performance data and other important documents.
- A14. Based on the results of the MD&A pilot, the Board concluded that the MD&A objectives and framework provided a sound foundation for developing the proposed principle-based MD&A standards.

PROPOSED MD&A STANDARDS

- A15. The Board developed the proposed broad principle-based MD&A standards based on four years of staff work and extensive Board deliberations, including the development of objectives and a vision framework and their application through an agency pilot. While both SFFAS 15 and the proposed standards require similar information, the Board believes that the proposed standards improve the effectiveness and efficiency of MD&A reporting in the following ways:
- a. This proposal eliminates the prescriptive MD&A sections, thereby enhancing flexibility, eliminating redundancy, and reducing burden.
 - b. This proposal does not include references to GPRAMA, further mitigating agency burden stemming from redundant budget and financial reporting. Instead, the Board intends that the proposed standards will provide the effective integration of costs and performance results to provide a more complete picture of a reporting entity's operating and financial performance.

- c. The proposal provides for more effective and informative analysis of financial position by requiring information about the underlying causes “of significant changes and trends in financial position as explained by the composition or balances of assets, liabilities, net position; costs, revenues, budgetary resources, and financing sources.”¹⁸. Alternatively, SFFAS 15 only requires “forward-looking information regarding the possible future effects of the most important existing, currently-known ... trends.”¹⁹
- d. The proposal provides broad, principle-based guidance for how to present a balanced (par. 8, A18), concise (par. 9, A19), integrated (par. 10, A20), and understandable (par. 11, A21) MD&A. This proposal represents an improvement over SFFAS 15 by providing a more complete, definitive, and organized discussion of “how” an agency should approach preparing MD&A content. This includes: (1) explicitly referencing the importance of “integrated” presentation to form a complete discussion (see par. A20) and (2) more effectively organizing and presenting the comparative information as opposed to the scattered and disconnected approach in SFFAS 15. For example, the following references are made in SFFAS 15:
 1. “MD&A should provide a clear and concise description of...” (par. 1)
 2. “Because MD&A must be concise if it is to be useful...” (par. 5)
 3. “MD&A should deal with the ‘vital few’ matters...” (par. 6)

A16. The Board presents the proposed standards in two categories to leverage these improvements and facilitate preparation of MD&A: 1) Presenting Information in MD&A and 2) Information Discussed and Analyzed in MD&A.

PRESENTING INFORMATION IN MD&A

A17. 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.

A18. The Board believes that a balanced MD&A explains both positive and negative effects to help users understand the important reasons for changes to the reporting entity’s financial position, financial condition, and operating performance.

- a. A balanced MD&A also includes trend information over multiple prior reporting periods to help users understand possible positive or negative future effects on amounts reported in the financial statements or supplementary information.

¹⁸ ED, paragraph 12.b.ii.

¹⁹ SFFAS 15, pa. 3.

- b. For example, management may discuss and analyze performance results during the current reporting period or over multiple reporting periods that had a significant (1) positive effect (for example, accomplishments that resulted in reduced costs); or (2) negative effect (for example, challenges that resulted in increased costs) on financial position and financial condition.

A19. The Board believes that to achieve a concise MD&A, management should emphasize the vital few matters for information required in paragraphs 12 and 13, summarize detailed information found outside of MD&A with references to that information, and limit boilerplate language and only presenting information that is current to the reporting entity.

a. For example:

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

A20. The Board believes an integrated MD&A incorporates quantitative, qualitative, financial, and non-financial information across various elements. For example, MD&A may include the interrelationship of budgetary, financial, and operating performance results for "major" programs, as presented in the reporting entity's statement of net cost. An integrated presentation is complementary to one that is balanced and concise but is a distinct quality that emphasizes effectively linking or coordinating various parts into a complete, cohesive discussion.

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

- a. MD&A is understandable when written in plain language to explain management's insights about its financial position, financial condition, operating performance, opportunities, risks, and systems, internal controls, and compliance.
- b. To achieve an understandable MD&A, management has the flexibility to combine different methods of presenting information that appeal to a variety of users. For example, an understandable MD&A may need to include organizational tools, such as headers, sub-headers, bullet points, or crosswalks to financial reports, and visual aids, such as charts, tables, or graphs, to help explain quantitative information.

INFORMATION DISCUSSED AND ANALYZED IN MD&A

- A22. The Board intends for the broad, principle-based standards in Information Discussed and Analyzed in MD&A to guide management in what information should be included in MD&A. For example, management should explain the organization's mission and how and why opportunities and risks, and systems, internal controls, and compliance significantly contributed to the improvement or deterioration of the reporting entity's financial position, financial condition, and key performance results.
- A23. The Board's intent is for MD&A to provide a brief description of the reporting entity's organization and mission to explain key organizational components.
- a. Management has the flexibility to determine how much information to include about the mission(s) and organizational components in relation to the size and complexity of the reporting entity.
 - b. For example, a large reporting entity could briefly summarize the reporting entity as a whole as well as each significant component/agency entity, while a small reporting entity could focus on the entity as a whole.
- A24. 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 believes that users will better understand the reporting entity's financial position through management's explanations about significant changes in the composition or the balances of assets, liabilities, net position; as well as costs, revenues, budgetary resources, and financing sources. This would better address users' interest in the use of the reporting entity's budget and other revenue sources to support the accomplishment of its mission(s).
 - b. Appropriate examples include language such as:
 - i. "Support of pandemic-related relief efforts led to a significant decrease of stockpile materials of vaccines by \$\$\$" would be consistent with the Board's intent, whereas "inventory decreased because of a decrease in stockpile materials" would not.
 - ii. "Disaster recovery efforts from natural disasters in X area of the country during 202X significantly increased the cost of X by \$\$\$" would be consistent with the Board's intent, whereas "an unexpected increase in costs deteriorated the financial position" would not.

- c. Financial condition is broader and more forward-looking than financial position.²⁰ The Board believes that users will best understand the financial condition of reporting entities through management’s explanation about significant changes in business-type activity, social insurance, long-term projections, and other relevant requirement supplementary information.

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

- a. MD&A focuses on what it costs the agency and its key organizational components to pursue or to accomplish key performance results, as well as whether the accomplishment of key performance results resulted in cost savings for the agency.
- b. For example, MD&A explains how key performance accomplishments and challenges affected budgetary or financing resources during the reporting period.
- c. However, the reporting of consolidated government-wide key performance results is not required in the MD&A of the CFR based on the following:
 - i. Paragraph 6 of SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*, states, “The CFR is a general purpose report that is aggregated from agency reports and tells users where to find information in other formats, both aggregated and disaggregated, such as individual agency reports, agency websites, and the President's Budget.
 - ii. The Appendix on Reporting Entities in the CFR provides references to websites where users can review a reporting entity’s MD&A discussion of key performance results and challenges.

A26. The Board’s intent is for MD&A to explain significant opportunities the reporting entity is managing in relation to performance accomplishments and challenges. For example, what is the reporting entity implementing or what does it plan to implement to leverage opportunities and what are the effects on key performance or financial results?

A27. 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?

²⁰ SFFAC 1, par. 180.

- A28. The Board believes that MD&A provides an assessment of the reliability of the reporting entity's financial information by explaining significant weaknesses in the financial management system, related systems, internal controls, or non-compliance with applicable laws. MD&A should explain whether the reporting entity executed and recorded transactions in accordance with budgetary and financial laws and federal accounting standards to prepare the agency financial report.

STEWARDSHIP INVESTMENTS

- A29. On June 11, 1996, the Board issued SFFAS 8, *Supplementary Stewardship Reporting*, which included a requirement to report "required supplemental stewardship information" (RSSI). On September 27, 2019, the Board issued SFFAS 57, Omnibus Amendments 2019, which rescinded the remaining RSSI requirements of SFFAS 8, eliminating the requirement for reporting RSSI.
- A30. In the SFFAS 57 basis for conclusions, paragraphs A7–A10, the Board discussed the comment letters from the 11 respondents. The majority of those responders agreed with eliminating RSSI because users did not rely upon that information. The minority of respondents who wanted to continue including RSSI in a separate category believed that distinguishing stewardship information informed users on the extent of investments that provided long-term benefits for the nation.
- A31. SFFAS 57 basis for conclusions, paragraph A11, indicated that the Board would also consider whether to report stewardship investments in MD&A. This project considered the SFFAS 57 responses by reviewing agency financial reports. The Board found that practice indicates that most reporting entities have concluded that information about stewardship investment is not significant enough to warrant inclusion in the MD&A. Therefore, the Board chose not to add the requirement that reporting entities should include stewardship investments in MD&A.
- A32. This decision does not preclude preparers from reporting stewardship investment information in MD&A if management believes this information is relevant or significant to explaining the reporting entity's financial position or condition.

RESCISSION AND REPLACEMENT OF SFFAS 15

- A33. The Board is proposing to rescind the MD&A standards in SFFAS 15 and replace them with this proposal.
- A34. The Board extensively deliberated whether to: amend or rescind and replace SFFAS 15. The Board believes that rescission and replacement is the better option as the proposal presents a broad, principle-based approach through a comprehensive set of standards. The proposed standards merge and update

relevant content from SFFAC 3 and SFFAS 15, while maintaining consistency with SFFAC 1.

- A35. The Board believes the proposed broad, principle-based approach addresses the concerns collected from 2017-2018 through an online survey and round table discussions, which precipitated the initiation of the MD&A project in 2019.
- A36. The 2017-2018 outreach activities revealed that agency MD&A content was typically very dense and redundant, affecting users' ability to easily understand the agency's financial position and condition.
- A37. One observed cause of redundancy was SFFAS 15's reliance on prescriptive section requirements (par. 2):

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

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

- A38. By eliminating the SFFAS 15 requirement for prescriptive MD&A sections, the Board intends that this proposal will add clarity for the user, while providing flexibility and reducing burden for the preparer, regardless of a reporting entity's size or consolidation status for the CFR.
- A39. MD&A redundancy also occurred because of SFFAS 15's references to GPRAMA terminology, namely the section titled Performance Goals, Objectives, and Results. Consequently, agencies have included substantial GPRAMA performance information with little or no connection to budgetary or financial results.
- A40. By removing references to GPRAMA terminology, the Board believes this proposal will reduce redundancy by eliminating the need for reporting entities to prepare and coordinate redundant program performance content (for budgetary and financial reporting) subject to different timeframes.
- A41. The Board believes these proposed broad, principle-based standards will facilitate preparation of MD&A content that places greater emphasis on the relationship between the costs of an agency and its key organizational components and key performance results, including whether these accomplishments resulted in cost savings for the agency.
- A42. The Board acknowledges the updates OMB has made to improve MD&A reporting in Circular A-136, *Financial Reporting Requirements*. However, FASAB establishes GAAP for the federal government through its pronouncements. This proposal will be level-A guidance in the GAAP hierarchy.
- A43. The Board believes rescinding and replacing SFFAS 15 provides broad principle-based, comprehensive standards to prepare MD&A content that is balanced,

integrated, concise, and understandable about the reporting entity’s organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations.

- A44. The Board believes that this proposal has adapted all relevant standards-like content from SFFAC 3. Therefore, *Omnibus Concepts Amendments* will amend MD&A concepts in SFFAC 2 and rescind MD&A concepts in SFFAC 3 to consolidate MD&A concepts into one SFFAC.
- A45. The Board does not intend for this proposal to affect other Statements that require information in MD&A, such as SFFAS 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*. The Board believes including the SFFAS 37 MD&A requirements in this proposal would cause duplication of information already required in MD&A.

ALTERNATIVE VIEW OF MS. JOHNSON AND MR. MCNAMEE

- A46. Members sometimes choose to express an alternative view when they disagree with the Board’s majority position on one or more points in a proposed standard. The alternative view discusses the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in the alternative view are those of the two members alone. However, the two members’ views may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The following material was prepared by the two members and is presented as an alternative view.
- A47. Ms. Johnson believes that the MD&A project has been worthwhile because it has allowed the Board to reexamine the contents and characteristics of the MD&A and it has informed OMB’s updates to its MD&A guidance in Circular A-136. Ms. Johnson agrees with the exposure draft (ED)’s conclusions regarding the contents and characteristics of the MD&A, but has four general concerns with the ED.
- A48. First, Ms. Johnson believes that there are no significant differences between the required contents and characteristics of the MD&A under the ED and under SFFAS 15. Both require information about: (1) the entity’s mission and organizational structure; (2) entity-level performance; (3) financial position and condition, including significant changes to financial position and/or condition and relevant prior-period, current-period, and forward-looking information; (4) financial and performance risks; and (5) an assessment of the entity’s financial management systems, controls, and legal compliance. Both require the MD&A to be balanced, concise, and clear or understandable.²¹

²¹ SFFAS 15, par. 1 states that the MD&A needs to be “clear,” “concise,” and “balanced;” par. 5 states that the “MD&A must be concise if it is to be useful;” and par. 6 states that the “MD&A should deal with the vital few matters.”

- A49. Unlike SFFAS 15, the ED states explicitly that the MD&A should be “integrated.”²² Ms. Johnson agrees with this requirement and notes that OMB amended A-136 in FY 2018 to stress that the MD&A should be integrated. In addition, Ms. Johnson believes that the concept of an integrated MD&A is integral to and implicit in the “concise” and “clear” requirements already included in SFFAS 15. Consequently, the explicit reference to “integrated” in the ED might not be critical to ensuring that MD&As are integrated. Also, Ms. Johnson notes that in FY 2021, OMB further amended A-136 to promote integrated MD&As by allowing management to choose section titles, which could, but do not need to, correspond to each type of information required by SFFAS 15.²³
- A50. Second, Ms. Johnson is concerned that rescinding SFFAS 15 and issuing a new MD&A SFFAS, as proposed in the ED, might imply that the MD&A requirements are being changed extensively, which, as noted above, she does not believe is the case. Ms. Johnson believes that this perception of significant changes resulting from the ED may also result from the fact that the ED does not state explicitly that it leaves the contents and characteristics of the MD&A largely unchanged. Ms. Johnson is concerned that this perception could make the preparation process more labor-intensive, at least in the near term, as preparers transition to a new Statement and together with their auditors interpret new guidance.
- A51. In this regard, Ms. Johnson notes that even though the ED is not changing the MD&A requirements extensively, it could be more burdensome for preparers than SFFAS 15, not only in the near term as noted in the previous paragraph, but also in the long term. This is because, in her opinion, the ED contains more prescriptive requirements than SFFAS 15 (see ED par. 12 and 13) and because the ED includes the four characteristics of the MD&A (in par. 8-11) as discrete standards. Ms. Johnson believes that these changes will lengthen, rather than shorten, MD&A checklists used by preparers and auditors.
- A52. Third, Ms. Johnson believes that current MD&As are generally comprehensive and understandable and does not believe that any duplicative or unclear text in MD&As is the result of SFFAS 15 or the fact that SFFAC 3 is not authoritative guidance. Rather, she believes that any duplicative or unclear MD&A text results from limited staff resources. Consequently, Ms. Johnson believes that amending or rescinding SFFAS 15 will not address any concerns with clarity or redundancy of MD&As.
- A53. To the extent that MD&As could benefit from streamlining or editing, Ms. Johnson believes that, in the absence of additional resources being provided to agencies, the solution may require additional staff training (rather than amendments to

²² See paragraph 10 of the ED.

²³ As noted in A-136, Section II.2.1, one section title, “Analysis of Systems, Controls, and Legal Compliance,” is required because of a requirement in OMB Circular A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*.

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

A54. Fourth, Ms. Johnson and Mr. McNamee note that, like SFFAS 15, the ED imposes the same requirements on all entities regardless of entity size. Requiring the MD&A of only CFO Act entities or entities that are significant at the government-wide level could reduce reporting burden for smaller and component entities. Those smaller or component entities that would like to prepare an MD&A could do so at management's discretion. In this regard, Ms. Johnson and Mr. McNamee believe that the ED misses an opportunity to explore "tiered" reporting in the federal environment (for example, different reporting requirements for entities of different sizes).

A55. As noted in paragraph A47, Ms. Johnson believes that the MD&A project has been worthwhile. It has confirmed that the contents and characteristics of the MD&A as specified in SFFAS 15 remain appropriate more than 20 years after it was written. If, however, the Board concludes that changes to MD&A standards are necessary, Ms. Johnson suggests that such changes be made with minimal amendments to SFFAS 15, paragraphs 1-4 and 7, rather than rescinding and replacing SFFAS 15 in its entirety.

APPENDIX B: MD&A OBJECTIVES

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

The first objective was general and did not relate to any specific reporting objective.

1. MD&A should concisely explain—in plain language—any budget and financial terms used, such as but not limited to, unfunded, unobligated, and net cost of operations.

REPORTING BUDGET INTEGRITY IN MD&A

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

2. MD&A should concisely explain financing resources and the sources and status of budgetary resources.
3. MD&A should concisely explain why significant changes in budgetary and/or financing resources were needed during the reporting period.

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>Paragraph 13: Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.</p> <p>Background and Rationale</p> <p>Paragraph 11: Questions this objective should</p>	<p>Paragraph 28: MD&A should concisely explain how budgetary resources have been obtained and used, instances in which their acquisition and use were not in accordance with legal authorization, the status of budgetary resources, and how information on the use of budgetary resources relates to information on the cost of program operations. MD&A should explain when major support for cost of a program or activity is provided outside the reporting entity’s budget and when the entity’s budget supports a program primarily reported by another entity. The discussion should describe major financing arrangements, guarantees, and lines of credit, including those not recognized in the basic financial statements.</p> <p>Paragraph 29: MD&A should explain major changes during the period to the budget originally approved, major failures to comply with finance-related laws, and other matters</p>

Budget Integrity Reporting Objective Concepts from SFFAC 1	Budget Integrity Reporting Objective Concepts from SFFAC 3
<p>address: What legal authority was provided for financing government activities and for spending the monies?</p> <p>Were the financing and spending in accordance with these authorities?</p> <p>Needs of Users of Federal Financial Reports</p> <p>Paragraph 89: All user groups need information about the budget ... for assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility...</p> <p>Paragraph 91: ...They [users] need periodic information about the status of budgetary resources, that is, the extent to which the resources have been used or remain available. They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.</p> <p>Paragraphs 115: Federal financial reporting should provide information that helps the reader to determine:</p> <p>Paragraph 116: Sub-Objective 1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.</p> <p>Paragraph 118: Sub-Objective 1B. The status of budgetary resources.</p>	<p>management believes necessary. These could include: unfunded liabilities that may require appropriations; assets that could be sold to augment future budgetary resources; amounts of payments that have not been matched with obligations; anticipated increases in the cost to complete long-term projects in progress that may require additional obligations or appropriations.</p>

REPORTING OPERATING PERFORMANCE IN MD&A

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

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

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

Operating Performance Reporting Objective Concepts from SFFAC 1	Operating Performance Reporting Objective Concepts from SFFAC 3
<p>Paragraph 14: Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity’s assets and liabilities</p> <p>Paragraph 126: Sub-Objective 2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.</p> <p>Paragraph 128: Sub-Objective 2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.</p>	<p>Paragraph 43: MD&A should objectively discuss the entity’s program results and indicate the extent to which its programs are achieving their intended objectives. Efficiency and effectiveness are important elements of performance measurement, and measuring cost is an integral part of assessing the efficiency and effectiveness of programs ... Information about effectiveness is often combined with cost information to help assess “cost effectiveness.”</p> <p>Paragraph 44: The entity’s financial performance should be summarized to provide significant indicators of its financial operations for the reporting period ... Financial performance is only one aspect of performance for governmental entities. Financial performance should be discussed to the extent relevant for the entity, <u>in a way that appropriately balances the discussion of financial and nonfinancial performance relevant to the program or other reporting entity.</u></p> <p>Paragraph 45: The summary discussion of performance in MD&A should: discuss the strategies and resources the agency uses to achieve its performance goals...</p> <p>Paragraph 47: To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what they plan to do to improve program performance.</p> <p>Paragraph 49: Explanatory information helps report users understand reported indicators, assess the reporting entity’s performance, and evaluate the significance of underlying factors that may have affected the reported performance. Explanatory information may include, for example, information about factors substantially outside the entity’s control, as well as information about factors over which the entity has significant control.</p>

REPORTING STEWARDSHIP IN MD&A

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

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

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>Paragraph 15: Federal financial reporting should assist report users in assessing the impact on the country of the government’s operations and investments for the period and how, as a result, the government’s and the nation’s financial conditions have changed and may change in the future.</p> <p>Paragraph 16: Federal financial reporting should provide information that helps the reader to determine whether the government’s financial position improved or deteriorated over the period, future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and government operations have contributed to the nation’s current and future well-being.</p> <p>Background and Rationale</p> <p>Paragraph 11: Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as: ... Did the government’s financial condition improve or deteriorate? What provision was made for the future?</p> <p>The Needs of Users of Federal Financial Reports</p> <p>Paragraph 99: Citizens, Congress, executives, and program managers need information to assess the effect of the government’s activities on its financial condition and that of the nation. Information is needed about the financial outlook for both the short and the long term. <i>[Staff Notes: forward looking]</i></p> <p>Paragraph 100: Information is needed on the government’s exposure and risks associated with deposit insurance, pension insurance, and flood insurance <i>[Staff Notes: Addressed in SFFAS 51]</i>. People need to know about likely future expenditures</p>	<p>Paragraph 14: Regarding the financial statements, MD&A should answer questions such as the following, to the extent that they are relevant and important for the entity: What is the entity’s financial position? What is its financial condition?⁵ How did this come about? What were the significant variations: from prior years? from the budget?⁶ from performance plans, long-term plans, or other relevant plans in addition to the budget?</p> <p>What is the potential effect of these factors, of changed circumstances, and of expected future trends? In other words, to the extent that it is feasible to project the effects of these factors, will future financial position, condition, and results, as reflected in future financial statements, probably be different from this year’s and, if yes, why? (Any such discussion should acknowledge that the future is unpredictable and will be influenced by factors outside the reporting entity’s control, including actions by Congress.)</p> <p>⁵The traditional concepts of “financial position” and “financial condition” are typically applicable to revolving funds, Government corporations, and other reporting entities that are intended to be self-financing. The concepts may be less relevant, or may require some qualification or modification, for other kinds of Federal reporting entities.</p> <p>⁶Management should use its judgment to decide what variances are relevant for MD&A. It will not always be essential or appropriate to discuss all variances.</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>for [example] cleaning up nuclear weapons sites and military bases. They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises <i>[Staff Notes: risks identified and profiled]</i>.</p> <p>Paragraph 102: Users also need trend information on spending on investments in physical and human capital versus spending on consumption.</p> <p>Objective 3</p> <p>Paragraph 135: This objective is based on the federal government’s responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions.</p> <p>Paragraph 135: <u>Federal financial reporting should provide information that helps the reader to determine:</u></p> <p>Paragraph 136: Sub-Objective 3A. Whether the government’s financial position improved or deteriorated over the period.</p> <p>Paragraph 137: Assessing whether the government’s financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits.</p> <p>Paragraph 138: ... help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits. <i>[Staff Notes: forward looking time horizons]</i></p> <p>Paragraph 139: Sub-objective 3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.</p> <p>Paragraph 140: Information about the results of past government operations is useful in assessing the stewardship exercised by the government. Users of financial reports also want help in assessing the likelihood that the government will continue to provide</p>	<p>Discussion and Analysis of the Financial Statements</p> <p>Paragraph 26: <u>Financial Results, Position and Condition</u>—MD&A should help those who read it to understand the entity’s financial results and financial position and the entity’s effect on the financial position and condition of the Government. It should give readers the benefit of management’s understanding of the significance and potential effect from both a short- and a long-term perspective of: the variations discussed in paragraph 14 in terms of major changes in types or amounts of assets, liabilities, costs, revenues, obligations and outlays; particular balances and amounts shown in the basic financial statements, including the notes, such as those dealing with funds from dedicated collections, if relevant to important financial management issues and concerns; and the entity’s required supplementary stewardship information (because RSSI describes economic conditions that cannot be expressed in the basic financial statements).</p> <p>Paragraph 27: Only those variations, balances and amounts, and stewardship matters of potential interest to readers who are not part of agency management should be discussed. Not all changes that are material to the GPFRR are sufficiently important to be included in MD&A. A line-by-line analysis of the financial statements is not generally appropriate. Instead, MD&A should summarize the most important items, explain the relevant causes and effects, and place them in context.</p> <p>Paragraph 31: <u>Current Demands, Risks, Uncertainties, Events, Conditions, and Trends</u>—MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions and trends--both favorable and unfavorable--that affect the amounts reported in the financial statements and supplementary information.</p> <p>Paragraph 32: <u>Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions and Trends</u>—The discussion of these current factors should go beyond a mere description of existing conditions, such as</p>

Stewardship Reporting Objective Concepts from SFFAC 1	Stewardship Reporting Objective Concepts from SFFAC 3
<p>the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.</p> <p>Paragraph 141: Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible... <i>[Staff Notes: risks that have a significant financial impact]</i></p> <p>Paragraph 143: Sub-objective 3C. Whether government operations have contributed to the nation’s current and future well-being.</p> <hr/> <p>Paragraph 144: Objective 3, in general, and subobjective 3C, in particular, imply a concern with “financial condition,” as well as “financial position.” Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself. For example, reports intended to help meet this objective might address users’ needs for information about investments in (or expenditures for) research and development, military readiness, and education; changes in the service potential of infrastructure assets; spending for consumption relative to investments; opportunities for growth-stimulating activities; and the likelihood of future inflation.</p> <p>Paragraph 145: Indicators of financial <u>position</u>, measured on an accrual basis, are the starting point for reporting on financial <u>condition</u> ... Reports ...might disclose, among other things, the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development, education and training, and state-owned infrastructure. Information on trends in total national wealth and income is also important.</p>	<p>demographic characteristics, claims, deferred maintenance, commitments undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors.</p>

REPORTING SYSTEMS, CONTROLS, AND COMPLIANCE IN MD&A

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

- 10. MD&A should concisely describe the conditions of data, systems, and controls that affect the ability to produce reliable financial information.
- 11. MD&A should include a summary discussion about ongoing and planned actions to address non-compliance and control weaknesses that may be causing material

weaknesses. This includes references to other sections that have a more in depth discussion of those items.

<p align="center">Systems and Control Reporting Objective Concepts from SFFAC 1</p>	<p align="center">Systems and Controls Reporting Objective Concepts from SFFAC 3</p>
<p>Paragraph 11: Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as: ... Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?</p> <p>Paragraph 17: Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards; assets are properly safeguarded to deter fraud, waste, and abuse; and performance measurement information is adequately supported.</p> <p>The Needs of Users of Federal Financial Reports</p> <p>Paragraph 103: Users at all levels need information on internal controls and the adequacy of financial management systems. Citizens want assurances that systems and controls are in place to protect the resources [taxes] they supply to the government. They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended. Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well. Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.</p> <p>Paragraph 149: Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.</p>	<p>Paragraph 15: Regarding systems and controls, MD&A should tell the reader whether internal accounting and administrative controls (some authorities prefer the term “management controls”) are adequate to ensure that: transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards; assets are properly acquired and used, safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud; and performance measurement information is adequately supported.</p> <p>Paragraph 16: Reporting information that helps people assess the condition of the entity’s management systems and of the relevant internal controls is an important objective of Federal financial reporting. The relevant internal controls for this purpose are those that support reporting on financial and operating performance and reporting on compliance with applicable laws.</p> <p>Paragraph 17: An entity’s ability to prepare auditable financial statements and other reliable reports for management from the entity’s books and records is a positive signal about the finance-related systems and controls of that entity. By themselves, however, the financial statements of a governmental entity do not provide adequate information about the status of the entity’s management systems and internal controls that support reporting on financial and operating performance and reporting on compliance with applicable laws. For these reasons, the GPFRR of a Federal reporting entity should include information about systems, internal controls, and legal compliance, in addition to the basic financial statements. This information—like the information on performance—is presented in a discrete section of the GPFRR; alternatively it may be incorporated in the GPFRR by reference to separate reports such as those required by the Integrity Act. MD&A should therefore address the most important facets of this information on systems, controls and legal compliance, as well as the financial statements, supplementary information, and performance information.</p>

Systems and Control Reporting Objective Concepts from SFFAC 1	Systems and Controls Reporting Objective Concepts from SFFAC 3
<p>Paragraph 150: Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management’s assertion about the effectiveness of the internal accounting and operational control system.</p>	<p>Discussion and Analysis of Systems, Controls and Legal Compliance</p> <p>Paragraph 41: ... Where relevant, management should describe the methods used to limit, detect, and recover improper payments; to assure that grantees and other nonfederal recipients of Federal funds use the funds as intended; and to assure that Federal and nonfederal entities comply with finance- related laws and regulations. MD&A should include a concise description of any major problems in these areas and of the corrective action taken or planned.</p>

APPENDIX C: DRAFT MD&A VISION FRAMEWORK

The Board drafted the following **MD&A vision framework** based on the MD&A objectives discussed in Appendix B.

- MD&A should summarize information about the financial position and condition of the reporting entity by discussing the entity’s mission, organization, and key financial and performance results to inform users of its financial health and sustainability of major programs.
- Therefore, MD&A should be an objective, concise, and easily readable summary analysis of
 - the essential few matters causing significant changes to the entity’s (1) financial statement amounts during the current reporting period and (2) financial, budgetary and key performance trends over past reporting periods;
 - the current and planned actions that will address the essential few opportunities, challenges, and risks that could significantly affect financial statement amounts and key performance results in the future; and
 - the essential few conditions related to systems and controls that could affect the entity’s ability to produce reliable financial information.
- MD&A may also include references to websites or other areas of the agency financial report that provide additional information when applicable.

APPENDIX D: ABBREVIATIONS

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

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