



OMNIBUS CONCEPTS AMENDMENTS

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

Statement of Federal Financial Accounting Concepts

Exposure Draft

Written comments are requested by November 27, 2023

August 25, 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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August 25, 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 Concepts titled *Omnibus Concepts Amendments*. Specific questions for your consideration appear on page 7, 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.

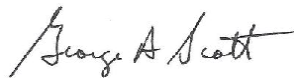
Responses are requested by November 27, 2023.

All comments received by the 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 QFR 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

STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

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

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

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

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

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This proposal would

- expand concepts in SFFAC 2, *Entity and Display*, to include the types of information that may be presented in note disclosures and the role of note disclosures as an integral part of the basic financial statements; and
- amend MD&A concepts in SFFAC 2 and rescind MD&A concepts in SFFAC 3, *Management's Discussion and Analysis*, to consolidate MD&A concepts into one SFFAC.

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

Users rely on note disclosures to better understand the financial statements and reach conclusions about the operating performance and stewardship of government resources. Note disclosures are necessary to enhance understandability of the financial statement for users and to provide insight into the complexity and amount of information reported. This proposal would identify and develop a set of principles for note disclosures to be used by the Board to reduce repetition and improve relevance, clarity, comparability, and consistency of note disclosures.

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

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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 meeting the 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_bPnJnx0mLj7IAHA. Specific instructions for providing your responses to this exposure draft are available once you enter the online questionnaire. 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 November 27, 2023.

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

Q1. The Board is proposing to amend the note disclosure concepts in paragraph 68 of SFFAC 2, *Entity and Display*. Please refer to paragraphs 3-4.

**Do you agree, partially agree, or disagree with the proposed concepts?
Please provide the rationale for your answer.**

Q2. The Board is proposing to rescind SFFAC 3, *Management’s Discussion and Analysis*, and consolidate MD&A concepts by amending paragraph 69 of SFFAC 2. Please refer to paragraphs 5-7.

**Do you agree, partially agree, or disagree with the proposed concepts?
Please provide the rationale for your answer.**

PROPOSED CONCEPTS

SCOPE

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

NOTE DISCLOSURE AMENDMENTS TO PARAGRAPH 68 OF SFFAC 2

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

~~“Other Information”~~ “Note Disclosures”
4. Paragraph 68 of SFFAC 2 is rescinded in its entirety and replaced with the following text:

Note Disclosures

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

- information recognized in financial statements,
- information about the reporting entity,
- information about events and conditions not recognized in the statements, and
- information to assist in understanding and assessing the government's accountability.¹

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

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

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

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

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

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

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

RESCISSION OF SFFAC 3

5. This paragraph rescinds SFFAC 3 in its entirety.

MD&A AMENDMENTS TO PARAGRAPH 69 OF SFFAC 2

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

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

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

A. RSI includes management’s discussion and analysis (MD&A) of the reporting entity. MD&A is an important vehicle to communicate management’s insights

about the reporting entity, including the reliability of information reported, to increase the understandability and usefulness of the agency financial report.

- B. MD&A summarizes information about the reporting entity's organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations.

APPENDIX A: BASIS FOR CONCLUSIONS

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

PROJECT HISTORY

AMENDING NOTE DISCLOSURE CONCEPTS

- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board”) added the note disclosures project to its agenda in October 2017 with the objective of improving the relevance, clarity, consistency, and comparability of note disclosures among federal entities. Staff formed a task force to assist the Board with the related research. The Board also conducted a survey on note disclosures in which a majority of respondents indicated that materiality-based judgment might assist them in eliminating redundant and unnecessary note disclosures. Thus, the Board developed materiality concepts and on May 4, 2020, issued Statement of Federal Financial Accounting Concepts (SFFAC) 9, *Materiality*.
- A2. SFFAC 9 clarified existing materiality concepts by discussing the needs of reasonable users, clarifying the concept of misstatement, and identifying specific federal environment considerations.
- A3. Next, the Board focused on a two-phased approach for improving note disclosures. During the initial phase, the Board developed note disclosures concepts; in the second phase the Board will apply the concepts to reexamine existing note disclosure requirements.
- A4. Note disclosures contribute to the usefulness of financial statement line items and help users understand the information in the proper context.² Note disclosures also help users understand the underlying assumptions and uncertainties inherent in the process of measuring the items.³
- A5. This Statement amends note disclosures concepts to assist the Board in the reexamination of note disclosure requirements in existing standards as well as the development of future requirements.

² SFFAC 1, par. 158.

³ SFFAC 1, par. 160.

CONSOLIDATING MD&A CONCEPTS AND RESCISSION OF SFFAC 3

- A6. On June 8, 1999, FASAB issued SFFAC 3, *Management's Discussion and Analysis*, as part of the initial federal financial framework. The SFFAC 3 concepts included standards-like content within the concepts.
- A7. On August 12, 1999, FASAB published an outline of SFFAC 3 as standards in SFFAS 15, *Management's Discussions and Analysis*, to require MD&A as part of the agency financial report. The Board expected agencies to consider the standards-like content in SFFAC 3 in conjunction with SFFAS 15 when preparing MD&As. Practice shows that agencies relied primarily on SFFAS 15 when preparing MD&As.
- A8. The Board's goals for the MD&A project are to consolidate relevant content from SFFAC 3 and SFFAS 15 into principles-based MD&A standards. The proposed MD&A standards will guide preparers to provide users with balanced, integrated, concise, and understandable Information about the reporting entity's organization and mission; financial position and condition; operating performance, opportunities, and risks; and systems, internal controls, and compliance with applicable laws and regulations.
- A9. To achieve these goals, the Board first identified MD&A objectives by analyzing the four reporting objectives found in SFFAC 1, *Objectives of Federal Financial Reporting*, and SFFAC 3: (1) budgetary integrity, (2) operating performance, (3) stewardship, and (4) systems and controls. The Board then drafted an MD&A vision framework.
- A10. The Board requested a pilot to test the MD&A objectives and MD&A draft vision framework. Staff conducted a pilot from January through March 2021, with 17 pilot agencies and 16 users.
- A11. In June 2021, the Board determined the MD&A pilot was successful and the objectives and MD&A draft vision framework were sufficient for consolidating relevant content from SFFAC 3 and SFFAS 15 into principles-based MD&A standards.
- A12. This Statement proposes to rescind SFFAC 3 because the Board believes that this proposal consolidates relevant MD&A concepts into paragraph 69 of SFFAC 2 and SFFAC 3 is no longer valid.

APPENDIX B: ABBREVIATIONS

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

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