

Cost Accounting Standards Board

Notice on Principles and Other Matters to Guide Conformance of the Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP)

I. Overview

Section 820 of Public Law 114-328 directed the Board to conform CAS to GAAP to the maximum extent practicable. In March 2019, the Board issued a staff discussion paper (SDP) that described three mechanisms to support the analysis required by this statutory mandate. First, the Board proposed five guiding principles to help identify actions that can simultaneously reduce burden on contractors while continuing to protect the interests of the Federal Government. Second, the Board created a global roadmap to help guide the prioritization of standards for conformance. Third, the Board developed a template that could be used to cross-walk CAS to potentially comparable GAAP coverage. In addition to seeking comment on these three mechanisms, the Board sought feedback on the potential need for revisions to the CAS contract clause at 9903.201-4, which requires a contractor to agree to an adjustment, with interest, payable to the Government, if it fails to comply with an applicable standard in CAS. The Board asked whether the clause should be revised if any requirements in CAS are eliminated to protect the interests of the Government and contractors. This notice responds to public comment in each of these areas. As explained below, the guiding principles have been refined and revised in response to public comments.

In addition, this notice reflects research accomplished by the Board, and is issued by the Board in accordance with the requirements of 41 U.S.C. 1502(c).

II. Summary of Public Comments

The Board received seven public comments to the SDP. These comments came from companies, industry associations, professional associations, and individuals. The Board found the depth and breadth of the comments to be informative. Responses to specific comments are as follows:

1. Guiding principles. The SDP described five guiding principles to help identify actions that can “simultaneously reduce burden on contractors while continuing to protect the interests of the Federal Government.” Most respondents acknowledged at least some level of support for the guiding principles set forth in the SDP. Two respondents raised concerns regarding the strategic vision behind the guiding principles while the other respondents focused on ways to strengthen the application of the principles to specific conformance efforts.

a. Strategic vision. *Comments:* One respondent felt that the proposed approach of evaluating each standard for possible conformance with GAAP fails to consider the need for broader reform of CAS. The respondent stated that CAS rules continue to reflect an industrial era economy that was prevalent when the standards were first developed and need to evolve to be more reflective of an economy that has transitioned to rapid development of new technologies at private sector expense and provision of software and services on a short turnaround. This respondent made a number of recommendations related to raising CAS applicability thresholds and broadening exemptions for certain types of contracts. Another respondent also raised concern about a standard-by-standard evaluation and urged for a more global review that recognizes that “GAAP provides uniformity and consistency in today’s business environment.” Both respondents stated that even where CAS and GAAP are different, the Board should remove CAS content where uniformity and consistency can be achieved through reliance on GAAP.

Response: The Board views the CAS-GAAP conformance initiative as just one of a number of efforts to reduce regulation, better control regulatory cost associated with its standards, and ensure CAS is able to keep up with ongoing changes in the business environment. As noted in its meeting agendas, the Board has been reviewing recommendations made by the Advisory Panel on Streamlining and Codifying Acquisition Regulations to reduce burdens associated with CAS. This past spring, for example, the Board worked with the Office of Management and Budget on a legislative proposal that would raise the threshold for CAS applicability from \$2 million to \$15 million and reduce the number of CAS-covered business segments by approximately 60 percent. The proposal was transmitted to Congress at the end of April for consideration in the National Defense Authorization Act. These broader reviews of CAS application will continue in parallel to the Board's work on CAS-GAAP conformance.

With respect to the CAS-GAAP conformance initiative, the Board believes that a standard-by-standard analysis is needed to determine whether conformance would meet the objective of section 820 to reduce burden on contractors while simultaneously protecting the interest of the Federal Government. Failure to conduct a comparative analysis of CAS and GAAP would make it difficult, if not impossible, for the Board to evaluate whether reliance on GAAP would materially achieve uniformity and consistency in cost accounting for the subject area(s) being removed from CAS without bias or prejudice to either party. That said, as explained in greater detail below, the Board agrees that the guiding principles should be clarified to create a closer tie-in to its longstanding Statement of Objectives, Policies, and Concepts that focus on uniformity and consistency in cost accounting and fairness to both contractual parties. Changes to the guiding principles to provide this clarity are discussed below.

b. Application of the guiding principles. *Comments:* One respondent observed that the Board’s interpretation of the phrase “protecting the interests of the government” in the guiding principles may be too broad. The respondent urged the Board to align its interpretation with its longstanding Statement of Objectives, Policies, and Concepts, which define the phrase as “achieving uniformity and consistency in cost accounting, without bias or prejudice to either contracting party.”

Two respondents expressed concern that the Board may seek to achieve conformance by incorporating GAAP content into CAS or revising CAS content to match GAAP. Both observed that such an approach would fail to reduce burden and create undesirable complexities.

Several respondents expressed concern that the potential benefit of conformance should be achieved by the elimination of CAS content and not by moving the eliminated content to another set of regulations, which would cause the burden to be retained. One commenter observed that “elimination of a requirement in one CAS standard that leads to an additional requirement in another CAS standard or Federal Acquisition Regulation (FAR) will reduce or eliminate the benefit of conformance to GAAP [and] is contrary to the stated purpose of streamlining the acquisition process.”

Response: The Board agrees that the guiding principles should be clarified in several respects to make clearer its intentions and application of the principles to specific conformance activities. Revisions to the principles clarify that (a) “protecting the interests of the Federal Government” involves achieving uniformity and consistency in cost accounting without bias or prejudice to either party and (b) the Board will seek, whenever possible, to avoid strategies that would achieve CAS conformance to GAAP by either augmenting CAS to reflect GAAP or moving CAS coverage from one standard to another standard or to other federal regulations. For

these reasons, the Board has revised the principles to guide efforts on the CAS-GAAP conformance activities to read as set forth in the Appendix.

2. Global CAS-GAAP conformance roadmap. The SDP described a roadmap addressing the overall prioritization and specific sequencing of its conformance work. Among other things, the roadmap organized standards into one of the following four groups: (1) standards focused primarily on cost measurement and assignment of costs to accounting periods, (2) standards focused primarily on allocation of costs, (3) standards with complex rules satisfying unique needs of government contracting, and (4) standards that are generally foundational principles of government contracting. The Board further stated that it intended to limit the scope of the conformance project to the standards identified in the first group.

Comment: Three respondents were generally supportive of the categorization of the standards into the groupings proposed by the Board. Two of the three respondents urged the Board generally to eliminate all seven of the standards identified in the first group and to reassign CAS 406, *Cost accounting standard—cost accounting period*, from the fourth group to the first group. One respondent suggested a different conceptual framework and order of priority for the conformance roadmap with the highest priority given to where GAAP has changed and may be inconsistent with CAS.

Response: Regarding the suggestion to eliminate all standards in the first group, as explained above, the Board believes a standard-by-standard comparison with GAAP must be conducted to determine whether reliance on GAAP would materially achieve uniformity and consistency in cost accounting for the subject area(s) being removed from CAS without bias or prejudice to either party. With respect to re-ordering the priority to consider conformance of CAS where GAAP has changed, the Board agrees and has developed an advanced notice of

proposed rulemaking which will be published separately to address the issues of revenue and lease accounting. More generally, the Board has added a guiding principle to address prioritization that takes into account both impact and feasibility. Finally, the Board has not adopted the recommendation to reassign CAS 406 from the fourth group to the first group. The Board assigned standards to the first group that have the greatest anticipated opportunity for conformance with GAAP. The Board concluded that CAS 406 does not offer the same level of anticipated opportunity for conformance as the standards in the first group. Because the standards in the fourth group, especially CAS 406, offer opportunity for streamlining, the Board will consider streamlining opportunities for the standards in group 4, but higher priority will be given to the standards in the first group because of their greater relative anticipated opportunity for conformance to GAAP.

3. Template for side-by-side initial assessments of CAS and GAAP. The SDP included in Appendix 1 a preliminary detailed analysis of CAS 408 and 409 using a side-by-side template to help respondents more easily compare CAS and GAAP coverage.

Comment: One respondent opined that the use of a detailed line-by-line analysis of CAS and GAAP is an undertaking that will produce results short of what Congress intended because such comparison encourage the rules to be more nuanced and detailed without conforming CAS to GAAP to the maximum extent practicable.

Response: The Board believes side-by-side comparison of CAS and GAAP requirements for each CAS standard is necessary for an effective and accurate identification of overlap between the respective standards and analysis of the differences between CAS and GAAP, including the continued need of unique CAS requirements in protecting the interests of the

Government. The Board observes that the template was helpful in organizing public feedback on the two CAS standards that were compared to GAAP in the SDP.

4. CAS contract clause. The SDP asked whether any revision to the CAS contract clause found at 9903.201-4 may be necessary as a result of the elimination of any requirements in the standards. The clause currently requires a contractor to agree to an adjustment, with interest, payable to the Government if it fails to comply with applicable CAS or to follow any cost accounting practice (whether or not covered by a specific CAS standard) consistently and such failure results in any increased costs paid by the United States.

Comment: Three respondents believe the Board should not modify the CAS clause as part of the CAS-GAAP conformance. Two of the three respondents cautioned the Board against modifying the CAS clause to apply to GAAP compliance and believe that Congress's statutory direction for CAS-GAAP conformance did not contemplate such an expansion of coverage. One respondent commented that they "do not believe Congress intended in Section 820 of the NDAA FY17 for regulations to be expanded exponentially through revisions to the CAS Clause to cover well beyond the 19 CAS to cover every possible methodology under GAAP. We believe there are alternative techniques for government oversight that would mitigate the risk of a material non-compliance with GAAP, such as real-time annual audits to minimize the length of time a non-compliance may exist before it is found."

Response: The Board did not find a need, based on public comment or its review of the clause, to revise the CAS clause as part of the CAS-GAAP conformance initiative. However, the Board notes that FAR 52.216-7, through the application of FAR Subpart 31.2 (specifically FAR 31.201-2), requires contractor compliance with generally accepted accounting principles and practices where there is no CAS coverage. In addition, consistent with its guiding principles, the

Board intends to monitor future significant disputes related to the elimination of any CAS requirements in conformance to GAAP, and evaluate whether the Board should address them through clarifying guidance or, if necessary, the rulemaking process.

**Guiding Principles for Conforming
Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP)**

Since the time that CAS were instituted in the 1970s, changes have been made to GAAP, driven by the need for improved uniformity and consistency, including in the measurement and assignment of costs, to achieve greater comparability, reliability and transparency of financial reporting used by investors and other users. This growth in GAAP content presents opportunities to modify or eliminate overlapping CAS requirements where GAAP standards may be applied reasonably as a substitute for CAS.

In analyzing and acting on opportunities to conform CAS to GAAP, the CAS Board will apply the following guiding principles:

1. Reduce CAS requirements where practicable to minimize the burden on contractors while protecting the interests of the Federal Government. To achieve these dual goals, the Board will seek to eliminate content from CAS where -
 - (i) reliance on overlapping or otherwise related coverage in GAAP would materially achieve uniformity and consistency in cost accounting for the subject area(s) being removed from CAS without bias or prejudice to either party;
 - (ii) existing requirements in other CAS standards or requirements or in other relevant rules (e.g., the Federal Acquisition Regulation) may protect the Government's interests without infringing on the Board's exclusive authority over the measurement, assignment, and allocation of costs for government contracts; or
 - (iii) the CAS coverage is no longer necessary to achieve these goals.

2. Whenever possible, avoid strategies that seek to achieve CAS conformance to GAAP by -
 - (i) augmenting CAS to reflect GAAP or other regulations; or
 - (ii) moving CAS coverage from one standard to another standard or to other federal regulations.
3. Monitor future changes to GAAP and FAR to identify and evaluate their impact to CAS and revise CAS, as necessary, through the rulemaking process.
4. Monitor future significant disputes related to the elimination of any CAS requirements in conformance to GAAP, evaluate whether the Board should address them through clarifying guidance or the rulemaking process, and take action as necessary.
5. Consider both impact and feasibility in prioritizing regulatory activities.