

**Public Comments Case Number CASB 2020-02**  
**CAS/GAAP Conformance for Revenue and Leases**

**List of Commentors**

- 1. Aerospace Industries Association (AIA)**
- 2. Financial Executives International (FEI)**
- 3. Redstone Government Consulting, Inc.**
- 4. McLaughlin, Maxwell, Individual, Taxpayer**
- 5. Romenius, Bill and Trautwein, Steven**



August 22, 2024

Cost Accounting Standards Board  
ATTN: John L. McClung  
Office of Federal Procurement Policy  
725 17<sup>th</sup> Street NW  
Washington, D.C. 20503

Submitted via email to: [OMBCASB@omb.eop.gov](mailto:OMBCASB@omb.eop.gov)

RE: Aerospace Industries Association Comments on Conformance of Cost Accounting Standards to Generally Accepted Accounting Principles for Operating Revenue and Lease Accounting, pursuant to 89 FR 53575 and CASB 2024-13806 Notice of Proposed Rulemaking dated June 27, 2024

Dear Mr. McClung,

The Aerospace Industries Association (AIA)<sup>1</sup> welcomes the opportunity to provide comments on the subject proposed rule as requested by the referenced Federal Register notice published by the Cost Accounting Standards Board (CASB or “the Board”). AIA appreciates the willingness of the CASB to engage with industry on its views regarding benefits and drawbacks associated with Conformance of the Cost Accounting Standards to Generally Accepted Accounting Principles for Operating Revenue and Lease Accounting. To this end, AIA offers the following comments.

AIA welcomes and supports the Board’s decision to modify section 9903.301, revise the definitions in Standards 403, 404, 414 and 417 and provide clarification in Appendix A of 414 – Instructions for Form CASB CMF, for the reasons supplied by the Board in its Notice of Proposed Rulemaking. AIA believes that the modification of these Standards will achieve the CASB’s objective of uniformity and consistency required for Government contracting and will have minimal impact on the contracting parties.

#### A. Views on the Analysis of Operating Revenue and the Board’s Recommendations

AIA agrees with the proposed rule that would (i) modify CAS 403 to rely Generally Accepted Accounting Principles (GAAP) for revenue, and (ii) exempt properly disclosed changes related to this effort from the contract price and cost adjustment requirements of part 9903.

##### 1. Definition of Operating Revenue

AIA agrees with the Board’s proposed rule that would modify CAS 403 to rely on GAAP for the definition of revenue and to eliminate the term “operating” in relation to revenue in CAS 403.

##### 2. Instances where an entity might not consider itself an agent when performing on GOCO contracts.

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<sup>1</sup> Founded in 1919, the AIA is the premier trade association advocating on behalf of more than 300 aerospace and defense (A&D) companies for policies and investments that keep our country strong, bolster our capacity to innovate and spur economic growth. AIA’s members represent the United States of America’s leading manufacturers and suppliers of aircraft and aircraft engines, helicopters, unmanned aerial systems, missiles, and space systems.

**RE: Request for Additional Information on AIA Whitepaper on the Audit of “Final Indirect Cost Rates” The Allowable Cost and Payment Clause – FAR 52.216-7(d), August 2023**

AIA believes that there could be instances where an entity might not consider itself an agent based on ASC 606-10-55-38, when performing a GOCO contract. ASC 606-10-55-38 states that “An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the customer.” Therefore, the question of whether an entity considers itself an agent depends on whether the entity assumes control over the specified goods or services at the GOCO location before transfer to the end customer. Under ASC 606-10-55-39, indicators that an entity controls the specified good or service include, but include, the entity is primarily responsible for fulfilling the promise to provide the specified good or service, has inventory risk or pricing discretion, then the entity controls the product or service. As an example, when a specified good is produced by a contractor at a GOCO facility then placed in the contractor’s inventory to be sold later to the government or a third party, the entity would be considered a principal versus and agent.

However, AIA believes that in instances where the entity is not an agent, the special allocation rules should be used to accommodate exceptions to GAAP when the use of GAAP for determining revenue does not result in an equitable allocation to GOCO segments. An example where this would be advised is where multiple business units use percentage of completion to measure revenues (resulting in no or significantly reduced inventories) and one business unit who recognizes revenue at time of sale and is required to keep a significant amount of finished goods inventory around to meet customer emergent demands in times of conflict (such as we now are experiencing with Ukraine and other theaters).

**B. Lease Accounting**

AIA agrees with the Board’s proposed rule that would make clarifications to CAS addressing including which assets should in the calculations of Facilities Capital Cost of Money (FCCM).

**1. Additional Clarity Added to Definitions of Tangible and Intangible Assets**

AIA agrees with the Board’s proposal to add the statement “It includes assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases.” to the definition of intangible capital assets shown at 48 CFR 9904.414–30(a)(4) and 9904.417– 30(a)(1), as well as the definition of tangible capital assets shown at 48 CFR 9904.403–30(a)(5), 9904.404–30(a)(4), 9904.409–30(a)(3), 9904.414–30(a)(5), and 9904.417–30(a)(2), and add clarifying language in appendix A to 9904.414, in the Instructions for Form CASB CMF. AIA believes that these changes are necessary to provide the clarification needed to resolve confusion caused by changes in GAAP requirements related to lease accounting.

**C. Treatment of cost accounting practice changes resulting from CAS-GAAP alignment**

AIA agrees with the Board in that the proposed changes to CAS 403 to rely on GAAP for revenue are required changes driven by Congressional direction under Section 820 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2017 and as defined under CAS 9903.201-6(a)(2). Additionally, AIA believes that the changes to clarify the definitions of tangible and intangible capital assets within the Cost Accounting Standards and to

**RE: Request for Additional Information on AIA Whitepaper on the Audit of “Final Indirect Cost Rates” The Allowable Cost and Payment Clause – FAR 52.216-7(d), August 2023**

provide clarifying language in appendix A to 9904.414 are required changes driven by the previously mentioned Section 820 for the NDAA for Fiscal Year (FY) 2017.

Further we agree that any anticipated general dollar magnitude impacts (GDMs) associated with all potential cost accounting practice changes with respect to these proposals should not have a significant impact to either the government or contractors; and the administrative burden of preparing and adjudicating “required change” GDMs would likely be significant and unduly burdensome for both parties. Therefore, to efficiently address cost accounting practice changes where a “required change” results from CAS-GAAP conformance, we recommend that an alternative exemption from this administrative process be allowed. Specifically, we recommend that 48 CFR 9903.201-8 be modified as follows (see italics):

**“9903.201-8 Compliant accounting changes due to external restructuring activities and CAS-GAAP Conformance.”**

The contract price and cost adjustment requirements of this part 9903 are not applicable to compliant cost accounting practice changes directly associated with:

- a. External restructuring activities that are subject to and meet the requirements of 10 U.S.C. 2325.
- b. *Initial cost accounting changes in conformance of Cost Accounting Standards 403, 404, 409, 414 and 417 to address harmonization with Generally Accepted Accounting Principles.”*

AIA appreciates the opportunity to provide feedback to the CASB on this important topic and welcomes further discussion. Please reach out to me with any questions at [adam.garnica@aia-aerospace.org](mailto:adam.garnica@aia-aerospace.org) or (703) 358-1095.

Sincerely,



Adam D. Garnica  
Senior Director, Acquisition Policy  
National Security Policy Division



August 26, 2024

Cost Accounting Standards Board  
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725 17th Street NW  
Washington, DC 20503

Submitted via email to: [OMBCASB@omb.eop.gov](mailto:OMBCASB@omb.eop.gov)

**Subject:** Financial Executives International (FEI) Comments on CASB Case No. 2021-01, Conformance of Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP) for Operating Revenue and Lease Accounting

**Reference:** FEI Letter Dated January 4, 2021, on CASB Advance Notice of Proposed Rulemaking (ANPRM) on the Conformance of the CAS to GAAP for Operating Revenue and Lease Accounting

Dear Mr. McClung,

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. This letter is submitted by FEI's Committee on Government Business (CGB) which formulates policy opinions on government contracting issues and represents the views of CGB and not necessarily the views of FEI or its members individually.

The purpose of this letter is to offer comments pursuant to 41 U.S.C 1502(c) related to CAS Board Case No. 2021-01 published in the Federal Register on June 27, 2024, as a Notice of Proposed Rulemaking (NPRM) on the Conformance of the Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP) for Operating Revenue and Lease Accounting.

FEI-CGB previously responded to the referenced ANPRM prepared in response to Section 820 of Public Law 114–328 that required the Board to review CAS and conform them, to the extent practicable, to GAAP. Our letter agreed that leveraging existing GAAP regulations has the potential to eliminate time and expense for the US Government and contractor community. We continue to support this initiative and provide the following comments on the NPRM.

#### I. Operating Revenue

FEI-CGB supports using the GAAP definition of revenue in place of the CAS definition of operating revenue. We further agree with the elimination of the definition of “operating revenue” within 9904.403-30(a)(3) and the removal of the word “operating” in relation to revenue elsewhere in CAS 403.

FEI-CGB is not aware of any instances where an entity might not consider itself an agent, based on Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-55-38, when

performing on a Government Owned Contractor Operated (GOCO) contract, and therefore provides no additional input on this point.

FEI-CGB views the proposed change (i.e., the elimination of the definition of “operating revenue” and reliance on the “revenue” definition in GAAP ASC 606) as a required change as defined under 48 CFR 9903.201-6(a)(2) and described at 48 CFR 9903.201-4(a)(i), since it effectively modifies CAS. However, since the CAS definition of “operating revenue” and the GAAP definition of “revenue” are essentially the same, the expectation is that there would be no cost impact to the Government or contractors as a result of the change. In fact, FEI-CGB envisions that any changes to a contractor’s Disclosure Statement as a result of this change would most likely be an administrative wording change and not a change in cost accounting practice. Consequently, FEI-CGB agrees that it is appropriate to exempt any necessary disclosed changes related to this conformance effort from the contract price and cost adjustment requirements of part 9903 by creating an exemption similar to that used for external restructuring activities in 48 CFR 9903.201.8

## II. Lease Accounting

FEI-CGB supports the CAS Board’s intent to clarify which assets should be included in the calculations of Facilities Capital Cost of Money (FCCOM). However, there still appears to be some confusion in terminology since the proposed changes attempt to apply the financial accounting rules governing tangible capital assets to right-of-use (ROU) assets acquired under finance leases. By definition, a ROU asset is an intangible asset acquired in a lease. It is the right, obtained under a lease, to use the underlying asset. While a finance lease generally includes a transfer of ownership of the underlying asset, it is still considered an intangible asset until that transfer occurs. Therefore, no change is required to the existing definition of tangible capital asset as it appears in 48 CFR 9904.403-30(a)(5), 9904.404-30(a)(4), 9904.409-30(a)(3), 9904.414-30(a)(5), and 9904.417-30(a)(2) which states:

Tangible capital asset means an asset that has physical substance, more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the services it yields.

FEI-CGB recommends limiting the definition of ROU assets to intangible assets in 48 CFR 9904.414-30(a)(4) and 9904.417-30(a)(1). For purposes of the intangible asset definition, there is no need to distinguish ROU assets acquired in finance leases from ROU assets acquired under operating leases. Consequently, the desired clarity is accomplished by adding the statement shown in italics to the end of the existing definition:

Intangible capital asset means an asset that has no physical substance, has more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the benefits it yields. *It includes right-of-use assets acquired under leases.*

If the CAS Board follows our recommended approach of revising only the definition of intangible capital asset to address ROU assets, a change is also required to 48 CFR 9904.403-50(c)(1)(iii) to add the value of ROU assets acquired in finance leases to the three factor formula. Specifically, 403-50(c)(1)(iii) could be revised as shown in italics below:

The percentage of the average net book value of the sum of the segment’s tangible capital assets, *plus right-of-use assets acquired in finance leases*, plus inventories to the total average net book value of such assets of all segments. Property held primarily for leasing to others shall be excluded from the computation. The average net book value shall be the average of the net book value at the beginning of the organization’s fiscal year and the net book value at the end of the year.

Since the Appendix A to 9904.414—Instructions for Form CASB CMF already address the capitalized value of leased property, only a minor revision is needed to clarify that the ROU assets acquired in a finance lease should be included in the facilities capital items reported on the form, as presented italics below:

#### Recorded, Leased Property, Corporate

The net book value of facilities capital items in this column shall represent the average balances outstanding during the cost accounting period. This applies both to items that are subject to periodic depreciation or amortization and also to such items as land that are not subject to periodic write-offs. Unless there is a major fluctuation, it is adequate to ascertain the net book value of these assets at the beginning and end of each cost accounting period, and to compute an average of the beginning and ending values. “Recorded” facilities are the capital items owned by the contractor, carried on the books of the business unit, and used in its regular business activity. “Leased property” is the capitalized value of leases for which constructive costs of ownership are allowed in lieu of rental costs under Government procurement regulations, *including right-of-use assets acquired in a finance lease, but excluding right-of-use assets acquired in an operating lease.* Corporate or group facilities are the business unit’s allocable share of corporate-owned and leased facilities. The net book value of items of facilities capital which are held or controlled by the home office shall be allocated to the business unit on a basis consistent with the home office expense allocation.

FEI appreciates the CAS Board’s consideration of our input. If you wish to engage with the FEI-CGB on this matter or have any questions, please contact Ms. Christina Coulter, Manager, Technical Committee Operations, at (973) 765-1047 or email at [ccoulter@financialexecutives.org](mailto:ccoulter@financialexecutives.org). You may also contact me directly at (508) 309-8118 or [david.k.ferrari@rtx.com](mailto:david.k.ferrari@rtx.com).

Sincerely,



David K. Ferrari  
Chair, Financial Executives International – Committee on Government Business

Distribution: Christina Coulter, Manager, Technical Committee Operations  
FEI-CGB Members



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ATTN: John L. McClung (email: [OMBCASB@omb.eop.gov](mailto:OMBCASB@omb.eop.gov) and [john.l.mcclung2@omb.eop.gov](mailto:john.l.mcclung2@omb.eop.gov))

**RE: CASB 2021-01  
Conformance of Cost Accounting Standards to Generally Accepted Accounting Principles for Operating Revenue and Lease Accounting**

Thank you for allowing us the opportunity to provide comments to the Notice of Proposed Rulemaking Case No. CASB 2021-01 addressing the Cost Accounting Standards (CAS) conformance to Generally Accepted Accounting Principles (GAAP) related to operating revenue and lease accounting.

We fully support the CAS Board's (CASB) proposal:

- To remove the CAS 403-30(a)(3) definition of "operating revenue" and rely on the current GAAP definition of "revenue" found at Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-20; and
- As we see it, allow the net book value of leased asset to be included in the calculation of CAS 414 and 417 cost of money when imputed interest is recognized as part of recording the lease payment transaction.

However, the CASB needs to address the impact of the accounting treatment for contractors applying International Financial Reporting Standards (IFRS) when it comes to lease accounting. Contractors required to apply IFRS will still be facing a situation of increased unallowable interest expense as the accounting treatment under IFRS requires the recognition of the interest expense within right-to-use assets lease payments. While foreign concerns are exempt from much of CAS, they can claim cost of money under FAR 31.205-10, Cost of money. FAR 31.205-10(b)(1) requires CAS 414 be followed when cost of money is proposed and claimed. The requirement to treat all leases as finance (capital) leases under IFRS will result in contractors applying IFRS having unallowable interest and not allow the net book value of right-to-use leased assets to be included in the cost of money calculation. To meet the CASB's intended outcomes, we recommend the CASB consider replacing the sentence:

"It includes assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases."

With:





“It includes assets where the contractor’s accounting practices require the recognition of interest when recording the lease payment and excludes assets where the lease payment is recorded as a single amount.”

This will not only address the current issue faced by contractor’s applying IFRS, it will also address any future changes made by the FASB as the ASC and IFRS are brought into conformity with each other.

We believe any cost accounting practice changes necessary should be considered a required change.

Thank you again for the opportunity to provide comments on this important proposed rulemaking.

**From:** [REDACTED]  
**To:** [MBX OMB CASB](#)  
**Subject:** reference case 2021-01  
**Date:** Friday, August 23, 2024 8:55:23 AM

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To whom it may concern,

My name is Maxwell McLaughlin, [REDACTED] Taxpayer, [REDACTED]  
[REDACTED], and I am applauding the adoption of GAAP revenue recognition over CAS.

If by Government Owned Contractor Operated (GOCO) contracts, it is meant all contracts of major prime contractors that typically benefit from GOCO arrangements, and by agency there is a distortion of the "privity of contract" concept by these prime contractors, then I would expect the Government customer to stop the agency status in GOCO contracts, as allowing the landlord/ tenant GOCO arrangement to impede rights in other contracting actions should not be allowed in name of contract stewardship. But if you are narrowly defining your inquiry to a separate GOCO performance obligation, which can be segregated from other performance obligations, set from the Government customer perspective, which can be negotiated independent of other performance obligations, I see no harm to taxpayers by such agency understanding. A GOCO agency arrangement should not be the basis for claims of "interdependency," "interrelatedness," or "significant integration," to combine otherwise distinct performance obligations from a Government customer perspective. There exists significant literature in system guidelines, customer complaints, and CDRL WBS elements that convey customer perspectives that are not distinct performance obligations on contract currently, which is probably more a function of the term, performance obligation, not being in the current Government contract lexicon. But as the Government customer evaluates past contract results and incorporates the concept of performance obligations into future contracts, better defining how revenue recognition will occur as control of performance obligations are transferred to them, taxpayer stewardship should improve. Even the most fixed cost today is variable if given enough time. Prime contractors may also change their perspectives on agency over time. The FASB recognizes that if a measure of progress does not faithfully depict the economics of the transfer, the entities to the contract should consider whether there may actually be more than one performance obligation. So in such a fluid environment as Government contracting, I recognize that GOCO agents may not see economic benefit from agency and choose a different path.

Regards,

Max

August 16, 2024

To: [OMBCASB@omb.eop.gov](mailto:OMBCASB@omb.eop.gov).

Subject: Response to Cost Accounting Standards (“CAS”) Board Case 2021-01 – *Federal Register June 18, 2024* – Application of Cost Accounting Standards to Indefinite Delivery Vehicles (“IDVs”) and *Federal Register June 27, 2024* – Conformance of Cost Accounting Standards to Generally Accepted Accounting Principles (“GAAP”) for Operating Revenue and Lease Accounting.

We would like to provide to you our thoughts and comments relative to CAS Board Case 2021-01 that according to the *Federal Register* promulgations cover IDVs and adoption of GAAP for Operating Revenue and Lease Accounting.

By way of introduction, we have a great deal of experience working CAS matters accumulated through our work both in the private sector and within the Defense Contract Management Agency (“DCMA”).

One of us (Bill Romenius) worked CAS issues at The Boeing Company, including providing staff support to the first Industry Representative to the reestablished CAS Board and subsequently was the Industry Representative to the CAS Board. After retiring from The Boeing Company, Bill, while employed at DCMA, developed CAS training modules and then provided training of those modules to DCMA’s Cognizant Federal Agency Officials (“CFAOs”) and their supervisors. He also worked directly with CFAOs in addressing their specific CAS issues. In addition, he developed CAS training modules that were used by the Defense Acquisition University. Bill was a member of the Section 809 panel – CAS Modernization sub-committee (more on that later). Currently, he is providing CAS training and on an extremely limited basis consultancy on CAS.

The other one of us (Steve Trautwein) was a long-time contracting officer in the Department of Defense with responsibilities at both the divisional and corporate levels. As a CFAO with final authority for Cost Accounting Standards issues, he resolved the entire gamut of issues arising in the CAS covered contract environment. Later in his federal career, Steve assumed responsibility for leading the DCMA contracting officers, who had CFAO responsibilities for the largest defense contractors. Steve was also a member of the Section 809 panel – CAS Modernization sub-committee. Subsequent to his federal career Steve has spent six years as a consultant, both teaching CAS as well as working with an array of clients on CAS related issues.

It is with this background, experience, perspective and yes, passion that the following thoughts and comments to the Cost Accounting Standards Board's Case 2021-01 are offered in our role as members of the CAS Modernization sub-committee to the Section 809 panel

**I. IDVs – Federal Register June 18, 2024**

We wish to call the CAS Board's attention to the Report of the Advisory Panel on Streamlining and Codifying Acquisition Regulations, published in June 2018. This Advisory Panel, known as the "Section 809 Panel," was created under Section 809 of FY2016 Defense Authorization Act to review the acquisition regulations applicable to the Department of Defense with a view toward streamlining and improving the efficiency and effectiveness of the defense acquisition process and maintaining defense technology advantage. IDVs was an area covered in detail by the Section 809 Panel. The Section 809 Panel concluded that changes to the monetary thresholds alone will not solve this problem. Instead, there needs to be a fundamental change in how CAS is applied to such contracting vehicles. Moreover, the face value of IDVs is irrelevant because, at the time of award, no one knows the volume of awards that will be made to a specific contractor. The Section 809 Panel recommended that CAS applicability on IDVs be determined at the time of order placement with each order evaluated on its own. We believe that this remains the correct position.

The membership of the CAS Board has changed significantly since the Section 809 recommendations were presented to the CAS Board. Accordingly, we believe that the current CAS Board would be well-served to place the Section 809 panel's recommendations on the CAS Board's agenda. This would include, in addition to IDVs and hybrid contracts, recommendations made by the Section 809 – CAS Modernization Sub-committee in the following areas:

1. Raising CAS-covered contract threshold to \$25 million
2. Raising full coverage & Disclosure Statement thresholds to \$100 million
3. Eliminating the CAS "trigger contracts"
4. Harmonizing commercial item exemption with the current law
5. Expanding the cost data CAS exemption to fixed-price type contracts using price analysis
6. Inserting the CAS clause only in contracts that are actually CAS covered
7. Updating the CAS Disclosure Statement
8. Addressing the entire cost impact process

We are sure that members of the Section 809 – CAS Modernization Sub-committee would welcome the opportunity to discuss these recommendations with the CAS Board.

## **II. Revenue & Leases – Federal Register – June 27, 2024**

### **Impact**

The intent of the Public Law 114-328 to harmonize CAS with GAAP is clear. However, all parties must recognize that mere harmonization is not likely to be very impactful in either lessening the CAS administrative burden or to increase competition by encouraging additional companies to provide their goods and services to the United States Government. Why? Since the accounting between CAS and GAAP are essentially the same in these areas to be harmonized, the elimination of a CAS provision is not necessarily going to translate into reduced administrative burden. We would like to suggest that a more impactful way for the CAS Board to embrace the spirit of Public Law 114-328, is to adopt the recommendations of the Section 809 Panel (a Panel that was also grounded in Public Law).

### **Guiding Principles**

The June 27, 2024 promulgation associated with Case 2021-01 states that the CAS Board's "Guiding Principles" are to: "minimize burden on contractors, protect the interests of the Federal Government, and materially achieve uniformity and consistency in cost accounting, without bias or prejudice to either party." We would like to suggest that these CAS Board's "Guiding Principles" are a jumble of not very well-defined thoughts, that are not particularly helpful to those involved in CAS as they try to gain an understanding of the CAS Board's perspective.

Such terms as "minimize burden" "protect the interests of the Federal Government" "materially achieve uniformity and consistency" are imprecise and will likely result in significantly varying interpretations. The term "protect the interests of the Federal Government" is a good example of something that can produce inconsistency, if not havoc, since it is such a nebulous phrase. Different perspectives will cause a wide-spectrum of viewpoints on how the interests of the Federal Government are protected. They could run from a myopic level focus solely on price/cost impact for a particular issue (as will be demonstrated on the comments below relative to "required Cost Accounting Practice changes") to a broader view realizing that developing CAS rules and regulations that encourage increased competition and access to the most modern technologies are a true benefit in protecting the interests of the Federal Government and should be recognized as such.

It is respectfully suggested that rather than the “Guiding Principles” included in the June 27, 2024 *Federal Register* promulgation that the CAS Board refer back to its *Statement of Objectives, Policies & Concepts – 57 Federal Register July 13, 1992 31036*.

Specifically, over the years the CAS Board, on three separate occasions, explained to interested parties the manner in which it would meet its legal obligation to design cost accounting standards “to achieve uniformity and consistency in the cost accounting standards governing measurement, assignment, and allocation of costs to contracts with the United States.” These promulgations are known as its “Statement of Objectives, Policies & Concepts” (“*Statement*”). The latest version of the *Statement* was promulgated in the *Federal Register* on July 13, 1992. The *Statement*, a detailed narrative, spells out each element that is considered in establishing, revising, eliminating, interpreting any standard or governing rule or regulation.

The specific provisions contained in the *Statement* provide not only the intent of the *Statement*, but also the intent of the CAS Board:

Pursuant to Pub. L. 100-679, there is established within the Office of Federal Procurement Policy an independent board to be known as the Cost Accounting Standards Board. The Board is now publishing a Statement of its current objectives, policies and concepts. This Statement is intended to make known the current views of the Board, as it considers the cost accounting issues that come before it. As such, the Board intends for subsequent promulgations to be consistent with the objectives and concepts provided herein. Interested members of the public should, on the basis of this Statement, be better able to focus on the complex and difficult issues that the Board faces in promulgating and revising Cost Accounting Standards. Anticipating that the Board, from time-to-time, will revise this document, the Board welcomes the views of interested parties on the objectives, policies and concepts stated herein.

## **OBJECTIVES**

The purpose of this Statement is to present the basic policies, procedures and objectives within which the Cost Accounting Standards Board carries out its functions under the authority of Pub. L. 100-679. The primary objective of the Board is to promulgate, amend, and revise Cost Accounting Standards designed to achieve (1) an increased degree of uniformity in cost accounting practices among Government contractors in like circumstances, and (2) consistency in cost accounting practices in like circumstances by individual Government

contractors over periods of time. In accomplishing this primary objective, the Board takes into account (1) the advantages, disadvantages, and improvements anticipated in the pricing and administration of, and settlement of disputes concerning contracts, (2) the probable costs of implementation, including inflationary effects, if any, compared to the probable benefits of such Standards, and (3) the alternatives available.

Other objectives of the CAS Board as identified in the *Statement* include: the relationship between Allowability and Allocability, Fairness & Equity and Verifiability. Cost Allocation Concepts include: Materiality (which will be discussed further in the next section of this letter), Method of Accounting, Full Costing, Hierarchy for Allocating Costs. Finally, Operating Policies include: Relationship to Other Authoritative Bodies (which offers a sound basis for the CAS/GAAP Harmonization effort), Process of Development of Standards and Comparing Costs and Benefits.

It is important to note that the *Statement* does not specifically state that protecting the interests of the Government is a guiding principle. Rather it is the process itself that protects the interests of both parties. How? Uniformity allows reasonable assurance that proposals and their evaluations are on equal footing, performed on a level playing field. This benefits both the Government and the competing contractors. Consistency ensures that like costs, in like circumstances are treated in a like manner in estimating, accumulating and reporting costs (essentially a combination of CAS 401 and CAS 402). Again, this benefits both the Government and competing contractors. Objectives and concepts such as Fairness & Equity, Verifiability, Full Costing, the CAS “Rosetta Stone” of basing the assignment, measurement and allocation of costs on the beneficial or causal relationship between the cost and the cost objectives all benefit both the Government and its contractors. As the CAS Board states in its *Statement*:

Benefits from the application of the Cost Accounting Standards to Government contractors include reductions in the number of time-consuming controversies stemming from unresolved aspects of cost allocability, as well as greater equity to all concerned. The Board also believes that additional benefits accrue through simplified contract negotiation, administration, audit, and settlement procedures. In addition, the Standards should serve to reduce the opportunities for the manipulation of accounting methods alleged to have existed prior to the establishment of the Standards. Finally, and most importantly, the availability of better cost data stemming from the use of Cost Accounting Standards permits improved comparability of offers and facilitates better negotiation of resulting contracts.

In short CAS was not put in place to protect just the interests of the Government<sup>1</sup>. Rather CAS must fairly protect the interests of both contracting parties by establishing a process, based upon the twin objectives of Uniformity and Consistency, that reduce “time-consuming controversies” by improving and simplifying the “contract negotiation, administration, audit, and settlement procedures.” For these reasons the *Statement* should be used as the underlying basis for future revisions to CAS.

### III. Required Change – *Federal Register* – June 27, 2024

The following perspective and comments are directed to the CAS Board discussion concerning required changes that was included in its Notice of Proposed Rulemaking (“NPRM”) (on Operating Revenue and Lease Accounting) - June 27, 2024 *Federal Register*:

Let us first summarize our three points, to be then followed by more specific comments:

We believe the CAS Board should:

1. Amplify guidance and give additional illustrations of cost accounting practice (“CAP”) changes required to remain in compliance with the existing CAS and CAP changes that should be determined “desirable”.
2. Address the observed lack of “required” and “desirable” CAP change determinations, with a view toward clarifying the intended application and giving CFAOs a better supported basis for appropriately making these determinations.
3. Provide additional materiality coverage in CAS including illustrations

#### **Why the need to provide additional guidance on required and desirable CAP changes**

All too often a CAP change is shaded in a negative light. This is unfortunate and causes an inaccurate determination as to the type of CAP change, i.e., required, desirable or unilateral and time-consuming cost impact negotiations.

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<sup>1</sup> The CAS Board put in place the cost impact process to ensure that neither contracting party is harmed by nor benefits from either a cost accounting practice (“CAP”) change or a CAS non-compliance. Specifically, the cost impact process ensures that the Government does not pay increased costs related to unilateral CAP changes or CAS non-compliances. However, it is equally important to recognize and acknowledge that this same cost impact process is there to provide contractors a vehicle to submit requests for equitable adjustments that are associated with required or desirable CAP changes. In summary, the cost impact process protects the interests of both contracting parties.



Understanding the genesis of a CAP change, first requires appreciation of the CAP itself. The CAP must be well-grounded in ensuring that the methods or techniques used in assigning, measuring and allocating the costs are each based upon the beneficial or causal relationship between the functions and activities that generate the cost and the cost objectives that receive the cost. Consequently, any CAP change must maintain that beneficial or causal relationship. As a result, CAPs will change as the business environment changes (e.g., increase/decreases in operations (caused by such events as mergers/acquisitions/divestments, recessions, pandemics, etc.), changes in production methods, significant contract awards, etc.). This is important since as the business environment changes, it is critical that a contractor has in place a robust process that periodically reviews its CAPs to ensure that those CAPs continue to maintain the beneficial relationship between functions/activities/cost and cost objectives. In short, maintaining compliant CAPs must be viewed as an on-going process. CAPs are not fixed and stagnant. Many CAP changes are not avoidable. Nor should CAP changes be viewed as something negative that warrants the contractor being penalized for making them. With the ever-changing business environment, one should expect CAPs changes to occur.

### **Required CAP Changes**

The CAS Board acknowledged this expectation of an on-going need for CAP changes by establishing a process to administer all CAP changes, including two types of required CAP changes. The first is a CAP change required to be made to maintain CAS compliance with a revised CAS (as is the case with the CAS/GAAP harmonization.) The second is a CAP change required to be made on a prospective basis to maintain compliance with the existing CAS.

The determination as to when the first type of required CAP change occurs is generally clear-cut. The determination as to when the second type of required CAP change occurs is not as distinctive. The antonym to a required CAP change made on a prospective basis is a CAS non-compliance, if and when the absence of a CAP change results in the CAP no longer representing the beneficial or causal relationship and the cost impact is material. Accordingly, and as previously mentioned, it is quite important that the contractor's internal control calls out for periodic reviews of its CAPs to ascertain whether the CAPs are still CAS compliant; not only under the current business environment, but also as anticipated changes to that business environment occur. Otherwise, the contractor risks a CAS non-compliance if it is found that its existing CAPs failed to keep pace with the changing business environment and as a result the beneficial or causal relationship of those CAPs has been materially disrupted. In a nutshell the ever-changing business environment will lead contractors to change their CAPs on a prospective basis to maintain compliance with the existing CAS. This is a required CAP change.

Finally, note that a required CAP change is subject to a Request for Equitable Adjustment (“REA”). This fact in and of itself shows that the CAS Board, rather than viewing CAP changes as something negative, encourages contractors to make CAP changes to maintain compliance with the existing CAS by allowing contractors to submit a REA for such CAP changes.

### **Desirable CAP Changes**

A desirable CAP is a type of a CAP change that allows a contractor to submit a REA. This again demonstrates the CAS Board’s encouragement to make CAP changes, when appropriate.

FAR 30.603-2(b)(3) identifies factors that may be used in determining whether a CAP change can be determined to be desirable.

Additional factors are included in Armed Services Board of Contract Appeals (Lockheed Martin Corp., ASBCA No. 53822, 07-2 BCA ¶ 33,614.).

“...relevant factors may include not only the magnitude of any increased costs but also: the extent of active government involvement in, and support for, the decision to institute the changed practices; the degree to which the changed practices increased the accuracy and precision of the cost measurement, assignment, and/or allocation process; the degree to which the changed practices increased the visibility, manageability and/or controllability of the costs in question; and, any other short or long term benefits to the government.

The additional factors identified by the ASBCA, have not been incorporated in CAS regulations. They should be incorporated.

Perhaps even more valuable in determining whether a CAP change is desirable is to review the benefits of CAS as described in the *Statement*. To reiterate in describing benefits of CAS, the CAS Board mentions in the *Statement* that benefits of CAS are to reduce “time-consuming controversies” by improving and simplifying the “contract negotiation, administration, audit, and settlement procedures.” The same criteria exist for the determination of desirable CAP changes. If, for example, the CAP changes simplify the accounting and thereby reduce “time-consuming controversies” by improving and simplifying the “contract negotiation, administration, audit, and settlement procedures,” then such CAP changes should be determined to be desirable.

### **Unilateral CAP Changes**

A CAP change should be determined to be unilateral only when the CAP change does not meet: a) either of the two definitions of required CAP change

or b) the definition of a desirable CAP change. Said a little differently, a unilateral CAP change determination is the default type of CAP change that occurs only when the conditions/criteria for the other types of CAP changes are not met.

### **What is happening.**

1. In our collective experience, determinations of a: 1) required change made on a prospective basis to maintain CAS compliance with the existing CAS or 2) desirable change are virtually non-existent. How can that be? It gets back to the negative connotation that some have with CAP changes. More to the point, CFAOs may be reticent to make such determinations because of the concern that the determination will be criticized, since it allows for REAs, (which then gets back to the incorrect belief that allowing for REAs does not “protect Government’s Interests.”) As a result, almost all CAP changes, regardless of the circumstances that triggered the CAP change, are determined to be unilateral and subject to the “no increased costs” limitation and denial of equitable adjustments. As has been discussed this position is not supported by the existing regulations.
2. The materiality criteria at CAS 9903.305 are not being applied consistently. This is important since no increased cost exists until and unless the results of the cost impact is material. Actual practice, as demonstrated by a long history of Government actions, appears to indicate an institutional view that the Government’s interests are best protected by finding almost any cost impact associated with a unilateral CAP change is material and thereby subject to the “no increased costs” limitation. This highlights the flaws of using such nebulous and problematic terms as “protecting the Government’s interests” in the CAS Board’s “Guiding Principles.”
3. The issue of cost impacts associated with CAP changes that occur simultaneously has added further complexity. Initially, court cases have found that the cost impact proposals associated with CAP changes that occur simultaneously must be computed separately; ignoring the impact of the other simultaneous CAP changes. Again, some believe this position protects the interests of the Government.

However, this illogical position ignores a basic tenet of CAS. Specifically, the manner in which a proposal is estimated must be consistent with the manner in which incurred costs are accumulated and reported (CAS 401). The interests of both parties are adequately protected when the impacts of simultaneous changes are combined, since the combined impact will provide the true impact of simultaneous changes. Furthermore, the combined impact of simultaneous unilateral changes is still subject to the “no increased costs” limitation.

This continued misconstrued application of protecting the interests of the Government is a reason, why it should not be included in the aforementioned “Guiding Principles.” It also highlights the problems associated with the other terms included in the “Guiding Principles.”

The CAS is in place to protect both contracting parties. Both parties are to benefit from CAS. Neither party should be harmed by the CAS provisions. The *Statement* offers a sound baseline of the CAS Board’s Objectives, Policies and Concepts. The “Guiding Principles” do not.

With this discussion of the three types of CAP changes as background, let us please briefly discuss the CAS Board stating that this required CAP change associated with the NPRM does not require a cost impact. The assumption that the impact of this CAP change, by its very nature and comments received to date, is immaterial makes complete sense.

The NPRM then goes on to say “The Board has provisionally determined that the change is required and that an exemption from the cost impact process is clearly warranted.”

It is completely understandable, why the CAS Board would determine that there is no need for a cost impact for a REA associated with this CAP change, i.e., to limit the administrative burden associated with this CAP change that the CAS Board believes to be immaterial.

However, we suggest that the CAS Board be guarded in proffering whether a cost impact is required, even in this case. Contractors’ systems are not the same. More importantly, it opens a door that could lead to contracting parties seeking an affirmative statement from the CAS Board as to whether a CAP change, required to maintain compliance with a revised CAS, is subject to a cost impact for a REA. Does the CAS Board really wish to become an umpire in determining on a case-by-case, company-by-company basis, when a cost impact for a REA is appropriate? Would it not be better for the CAS Board to state when a revision to a CAP is going to require a contractor to

change its CAPs to maintain compliance with the revised CAS and then leave it to the contractor to determine, whether it wishes to submit a cost impact for a REA?

The CAS Board's time would be well-spent, addressing the following CAP and cost impact issues:

- 1) Making clear that the interests of both contracting parties are protected by the process that CAS Board has put in place to achieve Uniformity and Consistency by using the "Rosetta Stone" of the beneficial or causal relationship between the functions/activities/costs and cost objectives in determining the method and techniques used to assign, measure and allocate cost.
- 2) Required and desirable CAP changes are valid types of CAP changes. They should be welcomed, not discouraged. It is only when the CAP change does not meet either of the two definitions of required CAP change or the definition of a desirable CAP change can the CAP change be determined to be unilateral.
- 3) Materiality determinations need to be based upon a common-sense approach in evaluating the Materiality criteria at 9903.305 and perhaps add a quantitative formula to assist in the determination of Materiality. It might also be beneficial to refer contracting parties to the Materiality discussion in the *Statement*.<sup>2</sup>
- 4) Cost impact proposals associated with simultaneous CAP changes must be computed simultaneously, consistent in the manner in which the impact will be accumulated and reported.

May we also recommend that the CAS Board place on its Agenda:

1. A review of the *Statement*
2. Request a presentation by representatives of the Section 809 - CAS Modernization Team of its recommendations concerning the modernization of CAS.

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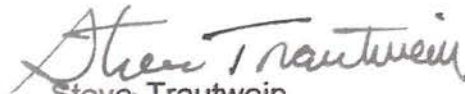
<sup>2</sup> Materiality must be considered in applying the Cost Accounting Standards because, as a practical matter, the cost of an accounting application should not exceed its benefit. Although uniformity and consistency in accounting are desired goals of the Cost Accounting Standards, the Board recognizes that the applications of accounting criteria must consider issues of practical application. Consequently, the application of Cost Accounting Standards in determining the measurement, assignment, and allocation of costs should not be so stringently interpreted that the desired benefits are negated by excessive administrative costs.

Thank you for the opportunity to respond to CAS Board Case 2021-01. Any questions can be addressed to the contact information listed below.

Respectively,



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