

C9 - Financial Policies and Procedures

Chapter 9, Financial Policies and Procedures, describes legal, regulatory, and policy requirements relating to security cooperation (SC) sales and grants.

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C9.1. - Purpose - Financial Policies And Procedures

C9.1.1. There are many key financial functions performed during the life cycle of a Foreign Military Sales (FMS) case. Two critical financial functions are the development of pricing estimates for the Letter of Offer and Acceptance (LOA) documents and billing and reporting of security assistance (SA) costs incurred/collected. This chapter provides an overview of SA policies and procedures for financial management. See [DoD 7000.14-R, DoD Financial Management Regulation \(DoD FMR\), Volume 15](#).

C9.2. - Financial Management Legal Provisions

C9.2.1. [Table C9.T1](#), provides a summary of the legal references for financial management of the Security Assistance (SA) Program.

Table C9.T1. Financial Management Legal References

Legislation	Subject
Arms Export Control Act, as amended (AECA), Section 3(c)(1)(A) (22 U.S.C. 2753(c)(1)(A))	Financing Eligibility
AECA, Section 21 (22 U.S.C. 2761)	Payment terms for Foreign Military Sales (FMS) sales from stock
AECA, Section 22 (22 U.S.C. 2762)	Payment terms for FMS sales from procurement
AECA, Section 23 (22 U.S.C. 2763)	Foreign Military Financing (FMF) credits
AECA, Section 24 (22 U.S.C. 2764)	Guaranties (used with old Federal Financing Bank (FFB) credits)
AECA, Section 29 (22 U.S.C. 2769)	Design and Construction Services

AECA, Section 34 (22 U.S.C. 2774) Executive Order (E.O.) 13637	Credit Standards and Criteria
AECA, Section 37 (22 U.S.C. 2777)	Fiscal Provisions - FMS Credits
AECA, Section 42(b) and (c) (22 U.S.C. 2791)	Coproduction/Licensed Production; Offshore Procurement
Foreign Assistance Act (FAA) of 1961, as amended, Section 503 (22 U.S.C. 2311)	Military Assistance - General Authority
FAA, Section 541 (22 U.S.C. 2347)	International Military Education and Training (IMET)
FAA, Section 632 (22 U.S.C. 2392)	Allocation and Reimbursement Among Agencies
FAA, Section 644 (22 U.S.C. 2403)	Definitions
Annual Foreign Operations and Related Appropriations Acts	Authority and appropriated amounts for FMF and other FMS-related accounts Restrictions/controls on the ability to execute FMS sales Congressional Notification

C9.3. - General Financial Policies

Some broad financial policies that should be noted early in the Foreign Military Sales (FMS) process include the following:

C9.3.1. Sales from Stock. The FMS program must be managed to recover the full costs of defense articles and defense services from the stocks of the Department of Defense and Coast Guard in accordance with the [Arms Export Control Act \(AECA\)](#). The Letter of Offer and Acceptance (LOA) mandates that the purchaser pay the full cost regardless of the estimated LOA cost for the individual case or the estimated values that were provided on the case. Modifications and Amendments are used to update case values as necessary when changes to the program occur. See [Section C6.7](#), for more information on when these documents should be used.

C9.3.1.1. Recovery of Cost. DoD Components must recover their costs for executing security assistance (SA) programs in accordance with the AECA and DoD Financial Management Regulation (DoD FMR). For indirect cost, only those additional costs that are incurred by the USG in furnishing the assistance should be recovered. Refer to the [DoD FMR, Volume 11a, Chapter 1, General Reimbursement Policy](#) for guidance on determining the amounts to be reimbursed and [DoD FMR, Volume 15, Chapter 7, Pricing](#), and [Section C9.4.8](#), on how to price defense articles and services.

C9.3.1.2. Materiality. A materiality assessment must be used to determine whether indirect and overhead costs should be included in reimbursable billings. DoD Components should ensure the materiality determination is justified and documented using data analysis, i.e., cost-benefit analysis, which is routinely reassessed to stand up to audit scrutiny. Refer to the [DoD FMR, Volume 11a, Chapter 1, General Reimbursement Policy](#) for additional guidance on materiality.

C9.3.2. Payment in United States Dollars. Sales may be made under FMS only if the eligible purchaser agrees to pay in U.S. dollars ([AECA, Section 21 \(22 U.S.C. 2761\)](#) and [AECA Section 22 \(22 U.S.C. 2762\)](#)). [AECA, section 21\(h\) \(22 U.S.C. 2761\(h\)\)](#) authorizes reciprocal arrangements under limited circumstances.

C9.3.3. United States Guaranties. The USG may guarantee financing by any individual, corporation, partnership, or other judicial entity doing business in the United States (excluding USG agencies other than the Federal Financing Bank (FFB)) if such financing is in connection with FMS or Direct Commercial Sales (DCS) of defense items. Fees will be charged for such guaranties ([AECA, section 24 \(22 U.S.C. 2764\)](#)).

C9.3.4. Pre-Letter of Request and Case Development Activities. Pre-Letter of Request (LOR) activities are those necessary to assist the purchaser in defining requirements in sufficient detail to produce a complete LOR. A complete LOR is one that contains all of the information necessary for the Implementing Agency (IA) to develop an LOA response. Pre-LOR activities include research and analysis, meetings, briefings, responses to requests for proposals and participation in international competitions, equipment demonstrations, and travel directly related to those efforts. Case development activities are those required to prepare LOA Data (LOAD) quality data after an LOR is complete. Case development activities are complete when the purchaser has signed the LOA (See [Chapter 5](#)). See [Section C9.4.2](#), for information on pricing and tracking manpower requirements.

C9.3.4.1. Priority to Case Execution. IAs must make prudent choices when expending FMS Administrative Surcharge funds. In budgeting FMS Administrative Surcharge funds, priority should be placed upon providing support to IA case execution activities.

C9.3.4.2. Limits on Pre-Letter of Request Expenditures. No more than eight percent of the total FMS Administrative Surcharge funds allocated to an IA in a fiscal year may be expended on pre-LOR activities. Requests for an exception to policy to exceed the eight percent limit on IA expenditure of FMS Administrative Surcharge funds on pre-LOR activities require DSCA Director approval. Requests for an exception to policy must include an accounting of expended and remaining funds and priorities for the remainder of the year.

C9.3.4.3. Pre-Letter of Request and Case Development Notifications to the Defense Security Cooperation Agency. IAs will notify DSCA (Office of Business Operations (OBO)) and DSCA (Office of Strategy, Plans, and Policy (SPP)) of planned pre-LOR and case development activities in the annual FMS administrative funds Program Objective Memoranda (POM) and budget process. Thereafter, IAs must notify DSCA (OBO) and DSCA (SPP) when:

C9.3.4.3.1. There are any changes to information presented in the budget process and the change will result in a new or increased cost greater than one percent of the total IA pre-LOR budget approved by DSCA.

C9.3.4.3.2. Expenditure of FMS Administrative Surcharge funds for case development activities associated with a potential FMS case (to include groups of closely related cases) are expected to exceed \$1 million.

C9.3.4.4. FMS Administrative Surcharge funding associated with these thresholds is all-inclusive (civilian pay, contracts, travel, etc.) and must be reported. Notifications should include an analysis of IA capability to fund other pre-LOR/case development efforts for the remainder of the current fiscal year. A notification memo template is provided at [Figure C9.F1.](#)

C9.3.4.5. DSCA will reply to IA notifications within ten (10) working days if additional information or clarification is required.

Figure C9.F1. Notification Memo Template

- [PDF Version of Figure](#)
- [Web Version of Figure](#)

C9.3.4.6. Use of Appropriated Funds. Should IAs have additional pre-LOR and case development efforts that are not funded in its FMS administrative funds budget, on an exceptional basis and at the discretion of the IA, in accordance with [AECA section 43\(a\) \(22 U.S.C. 2792\)](#), these efforts may be funded with funds available to the IA for operations. [AECA Section 43\(a\) \(22 U.S.C. 2792\)](#) provides: "Funds made available under other law for the operations of USG agencies carrying out functions under this Act shall be available for the administrative expenses incurred by such agencies under this Act." IA funds for operations may not be used to confer a subsidy on the foreign customer in violation of [AECA Section 21 \(22 U.S.C. 2761\)](#) and [AECA Section 22 \(22 U.S.C. 2762\)](#). Each DoD Component is responsible for using the Necessary Expense Doctrine to determine whether the security assistance-related expenditures are necessary and incidental to the proper execution of the general purpose of a particular DoD appropriation. FMS administrative funds or case funds that subsequently become available, as consistent with U.S. law and DoD policy, may be used, as appropriate, to reimburse the IA funds.

C9.3.4.7. Funding Pre-Letter of Request and Case Development Activities for Non-Program of Record. A Non-Program of Record (NPOR) represents a non-standard capability or system that the DoD has not formally adopted, fielded, or funded. IAs are authorized to use funding as specified in [Table C9.T2A](#), for NPOR Pre-LOR activities. IAs are further authorized to use current year FMS Administrative Surcharge Account funding allocations for case development. Once the NPOR LOA is implemented, the IA should request reimbursement of documented NPOR-unique expenses to the FMS Administrative Surcharge Account to the maximum extent feasible. If an LOA is not developed or implemented, the Pre-LOR funds originally used will remain the appropriate funding source. For case development activities, partner nation funding, obtained through an Analysis and Studies case or a Technical Assistance case, is the preferred method to be considered by the IA in lieu using FMS Administrative Surcharge Account funds. In the event additional funds are still needed to develop the LOR and/or LOA, the IA may utilize the existing process in [Chapter 14](#) for an out-of-cycle FMS Administrative Surcharge Account funds request to obtain funding (i.e. Unfunded Requirement (UFR)). All NPOR-related resourcing requests submitted to DSCA must meet the criteria in the CAC-enabled SAMM (DoD CAC Holders Only). For UFRs, the IA must detail all activities that require funding as a means to successfully develop and offer an LOA and demonstrate that all alternative avenues for funding have been pursued.

C9.3.4.7.1. Pre-Letter of Request. The FMS Activity Matrix ([Table C9.T2A](#)), specifies activities conducted during the Pre-LOR phase. Funding for these activities will be governed by the guidelines detailed in the table.

C9.3.4.7.2. Case Development. Case development for solutions not currently being procured by the DoD, that require additional activities such as: design, engineering, cost estimating, etc. in order to properly develop and price NPOR items in the LOA, can be funded by the FMS Administrative Surcharge Account or from an LOA. If FMS Administrative Surcharge Account funds are used, the subsequent case must reimburse the FMS Administrative Surcharge Account. An Analysis and Studies LOA or a Technical Support LOA can be created in the event the partner has no available active cases to fund NPOR case development. To the greatest extent possible, the IA will take into consideration the FMS purchaser's request, the complexity of the activity, and forecasted resource requirements when determining the LOA costs. The Foreign Military Sales Activity Matrix – Non-Program of Record, located in [Table C9.T2C](#), describes FMS case development activities for NPOR. The preferred method is to have case development activities funded upfront by a case, removing the need to perform reimbursement actions in the future.

C9.3.4.7.2.1. Any FMS Administrative funds used to fund NPOR unique expenses for case development efforts must be reimbursed to the FMS Administrative Surcharge Account once the NPOR case is implemented. Reimbursed amounts must be included in the initial deposit of the NPOR case. See [Section C9.3.11](#), for reimbursement process.

C9.3.5. Letter of Offer and Acceptance Pricing. When pricing FMS case items, the price depends on the source of supply (e.g., available from stock, ordered from procurement, Working Capital Fund (WCF)), and whether the item is to be replaced with a similar or improved item, or involves manpower or training. [DoD 7000.14-R, Volume 15, Chapter 7](#), provides detailed information on pricing policies.

C9.3.6. Direct and/or Indirect Charges. All FMS program expenses are recovered from the purchaser through direct charges (included in the materiel and/or services cost) or indirect (accessorial) charges and/or surcharges (usually computed as a percentage of costs) on the FMS case. Charges included within the materiel and/or services line may be referred to as "above-the-line" charges. This term is a holdover from the rescinded LOA form (DD Form 1513) where a line divided the direct charges from the accessorial (surcharge) charges. Accessorials and/or surcharges that are not included within a line item value may be referred to as "below-the-line" charges (e.g., transportation surcharge and packing, crating, and handling (PC&H)).

C9.3.7. Single Selling Price. DoD policy is to provide a single unit estimated price for articles offered under FMS. If the purchaser desires, a detailed description of the major components of cost included in estimated prices may be provided with the LOA as supplemental information or via separate report, unless such information may be considered proprietary and not releasable to the purchaser.

C9.3.8. Use of Estimated Prices. To assure that all costs are covered, quotations for defense articles/services are cited as estimated prices, with final adjustments established during case execution or after delivery of articles and/or services. The LOA indicates that prices for articles and/or services are estimates. See [DoD 7000.14-R, Volume 15, Chapter 7](#), for details on those instances when firm prices may be quoted on an LOA.

C9.3.9. Pricing Estimates from Vendors. For Letters of Offer and Acceptance (LOA) with Anticipated Offer Dates (AODs) relative to groups B, C, and D (see [Section C5.T6](#)), a delay in receiving contractor estimates may adversely affect the MILDEPs ability to offer LOAs in a timely manner. When developing an LOA document that requires a vendor estimate, the standard timeframe to wait for the vendor estimate is 20 days from the date of the MILDEP request. Absent the vendor estimate, the MILDEP should develop the estimate of the item(s) cost using the mechanisms identified in the [DoD FMR Vol 15, Ch 7](#). This timeframe is not a "hard-stop" and the MILDEP may, at its discretion, allow for a longer time for a vendor response when warranted by the circumstances (e.g., first sale of an item, more unique/complicated version, non-standard or country-unique requirements, etc. where the MILDEP would be unable to develop a reasonably accurate estimate.)

C9.3.10. Foreign Military Sales Trust Fund. The FMS Trust Fund is used for payments received from purchasers and disbursements made against implemented FMS cases. This fund is cited directly on contracts for the procurement of defense articles and/or services for the purchaser, or it is used to reimburse DoD Component appropriations for deliveries from DoD stocks or services performed by DoD employees. DSCA manages the FMS Trust Fund and is responsible for the solvency of each purchaser's FMS Trust Fund account. See [Section C9.11.1](#).

C9.3.11. Refund of Foreign Military Sales Administrative Surcharge Funds to the Foreign Military Sales Administrative Surcharge Account. There are specific circumstances when FMS Administrative Surcharge funds may be used to initially provide services (e.g., site survey) with subsequent reimbursement of the FMS Administrative Surcharge Account once the case is signed/implemented. The following outlines the process for an FMS case to refund FMS Administrative Surcharge funds to the FMS Administrative Surcharge Account for the specific instances where authorized. See [Table C9.T2A](#).

C9.3.11.1. The IA will establish a method of identifying all disbursement vouchers citing FMS Administrative Surcharge funds that will require subsequent refund to the FMS Administrative Surcharge Account by the FMS case when implemented.

C9.3.11.2. Upon case implementation, either a journal voucher (i.e., [Optional Form 1017-G, Journal Voucher](#), or other agency-approved form) or [Standard Form \(SF\) 1081, Voucher and Schedule of Withdrawals and Credits](#), may be used to transfer the prior disbursements from the FMS Administrative Surcharge fund cite to the FMS case fund cite. Refer to the [DoD FMR, Volume 10, Chapter 10, paragraph 100201, Completion of Intra-governmental Reimbursement and Transfer Vouchers](#).

C9.3.11.3. The journal voucher or [SF 1081](#) must be supported by and reference prior disbursement vouchers being refunded to the FMS Administrative Surcharge Account by the FMS case. This provides adequate documentation for the certification of transfer voucher (i.e., journal voucher or [SF 1081](#)) being processed and provides an adequate audit trail to the original obligation and disbursement transaction.

C9.3.11.4. If the refund is processed against current year FMS Administrative Surcharge fund budget authority, the funds would be available for obligation upon posting of the refund transaction. If the refund is processed against prior year FMS Administrative Surcharge fund budget authority, the excess budget authority made available as a result of posting the refund transaction, is to be returned to DSCA.

C9.4. - Specific Line Item Pricing Information

C9.4.1. Government-Furnished Engineering Services. The purchaser may request USG-furnished engineering services, or costs may be incurred, when providing these services as part of production. These services are offered on Foreign Military Sales (FMS) cases and are reported and/or billed the same as other services. Estimated costs to provide engineering services are included in the estimated unit cost of the purchased item. Such costs also include the pro-rata share of government-furnished testing and evaluation services. If requested, a break-out of USG cost is provided to the purchaser. USG-furnished engineering services are charged directly to an FMS case as follows.

C9.4.1.1. Performance of the service is necessary for production, configuration control, or reliability of the procured item. The charge is based on the proportionate share of work years needed for the FMS items. The charge is pro-rated based on the ratio of items produced for FMS purchasers to the total items produced in the same time frame.

C9.4.1.2. The services are recurring in nature and are related to a current production run in which the FMS materiel is produced. Nonrecurring Costs (NC) are recoverable via policies and procedures included in [DoD Directive \(DoDD\) 2140.02 "Recoupment of Nonrecurring Costs \(NCs\) on Sales of U.S. Items"](#) and [DoD Financial Management Regulation \(DoD FMR\) 7000.14-R, Volume 15, Chapter 7](#).

C9.4.1.3. The services are allocable to a specific purchaser or purchaser's program rather than performed to benefit the program in general. Some engineering work years may be required for general FMS administration. When the costs of such work years cannot be allocated to FMS case lines, they may be paid using FMS Administrative Surcharge funds (FMS Admin).

C9.4.2. Manpower in Support of Foreign Military Sales and Title 10 Building Partner Capacity Programs.

C9.4.2.1. Foreign Military Sales Case-Related Manpower Functions and Funding Source Matrix. The Foreign Military Sales Case-Related Manpower Functions and Funding Source Matrix table describes FMS case-related activities/functions and their proper source of funding. The activities/functions listed in [Table C9.T2A](#), in the "FMS Admin" column represents indirect costs funded by the FMS Administrative Surcharge and should not be included and/or priced as direct costs on the Letter of Offer and Acceptance (LOA). The activities/functions listed in [Table C9.T2A](#), under the "FMS Case," "Non-Standard," and "Frequency" columns represent direct costs funded by the Purchaser and should be included as line items on the case. Requests to deviate from the funding sources shown on this table or requests for clarification regarding this table must be coordinated with the DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)).

C9.4.2.2. Title 10 Building Partner Capacity Case-Related Manpower Functions and Funding Source Matrix. The Building Partner Capacity (BPC) Case-Related Manpower Functions and Funding Source Matrix table describes Title 10 BPC case-related activities/functions and their proper source of funding. The activities/functions listed in [Table C9.T2B](#), under the "Title 10 BPC Program Support Costs" and "Performing Activity Title 10 Costs" columns represent indirect costs funded by the DoD Title 10 appropriated funds and should not be included and/or priced as direct costs on the LOA. The activities/functions listed in [Table C9.T2B](#), under the "Title 10 BPC Case Costs" column represents direct costs funded by the DoD Title 10 appropriated funds made available to support Benefitting Partners and should be included as line items on the case. Requests for funding clarification regarding this table and possible funding alternatives or exemptions must be coordinated with the DSCA (OBO/FPRE/FP).

C9.4.2.3. Foreign Military Sales Program Management Services. The Implementing Agency (IA) may determine that USG program management services are necessary for successful program implementation and execution in accordance with the Foreign Military Sales Case-Related Manpower Functions and Funding Source Matrix in [Table C9.T2A](#).

C9.4.2.3.1. Cases “Accepted” After August 1, 2006. For LOAs or case line items “accepted” after August 1, 2006, any program management services will be included on well-defined, services line items on the case. The tailored line item description note for each of these line items must include details describing exactly what services will be provided and the length of time they will be performed.

C9.4.2.3.2. Cases “Accepted” Prior to August 1, 2006. For cases “accepted” prior to August 1, 2006, program management services were included on Program Management Lines (PMLs) on the cases. [Table C9.T3](#) identifies the types of sales where PMLs may have been used. PMLs were identified on LOA documents using Generic Code R6B. Generic Code L8A was used on older cases to identify Case Management Lines. While R6B and L8A may no longer be added to cases, PMLs and Case Management Lines that were “accepted” prior to August 1, 2006 may be used until closure of those cases as long as the activities are within the scope of the line as written as of August 1, 2006. Adjustments may be made to these existing PMLs via LOA Modifications or LOA Amendments as long as these adjustments are within the current scope of the PML; no adjustments will be made to increase the scope of these line items. Any additional scope required may be added as new line items in accordance with [Section C9.4.2.3.1](#). The FMS Administrative Surcharge is not applied to PMLs. The following must be included on all LOAs, Amendments, or Modifications that include PMLs: “Subtotal Cost of Ordered Articles and Services and PML total value.” The total of these two values is the block (8) value of the document.

Table C9.T2A. Foreign Military Sales Case-Related Manpower Functions and Funding Source Matrix

Click to view:

[Table C9.T2A. Foreign Military Sales Case-Related Manpower Functions and Funding Source Matrix](#)

Table C9.T2B. Title 10 Building Partner Capacity Case-Related Manpower Functions and Funding Source Matrix

Click to view:

[Table C9.T2B. Title 10 Building Partner Capacity Case-Related Manpower Functions and Funding Source Matrix](#)

Table C9.T2C. FMS Case Development Manpower Functions and Funding Source Matrix – Non-Program of Record

Click to view:

[Table C9.T2C. FMS Case Development Manpower Functions and Funding Source Matrix – Non-Program of Record](#)

Table C9.T3. Historical Rules for Use of Program Management Lines

NOTE: FMS cases “accepted” prior to August 1, 2006 may have included PMLs. This table provides historical information for the rules that governed the use of PMLs on those cases. No new PMLs may be included on cases (or new case lines) “accepted” on or after August 1, 2006. Program management costs may be included on cases after August 1, 2006, if justified. Inclusion of these costs should follow the same general guidelines on this table.

What Types of Sales MAY Include Program Management Lines?

- System sales of aircraft, ships, shipboard equipment, missiles, combat vehicles, radars, or communications electronics which include the major end item and necessary logistical and training support
- Modifications that improve the operational capability of systems already in purchaser inventories
- Non-standard equipment, systems, or services
- Sales that include program acceleration
- Coproduction programs

What Types of Sales MAY NOT Include Program Management Lines?

- Sales from stock other than weapon systems
- Follow-on support, including publications, maps, and charts
- Entirely for services
- Individual major end item sales
- Modifications other than those that improve the operational capability of systems
- Routine non-Major Defense Equipment (MDE) sales

C9.4.2.4. Foreign Military Sales and Title 10 Building Partner Capacity Manpower Reporting Requirement. For FMS cases, manpower requirements listed on LOAs are generated and validated through the Manpower Travel Data Sheets (MTDS) in the Defense Security Assistance Management System (DSAMS). The MTDS is in a standardized format for capturing and auditing all case-funded military, civilian, or USG contracted full-time equivalent (FTE) manpower,

travel, and personnel support costs. The MTDS is not required for Title 10 and Title 22 BPC cases because the costs for these types of activities are researched, validated and reported to DSCA and Congress before BPC LOA development begins. DSCA will validate auditability of all Title 10 and Title 22 BPC case-funded military, civilian or USG contracted FTE manpower, travel and personnel support costs via the planning documents used to define the program's requirements (e.g. Training and Equipment List, Memorandum of Requests, etc.). Do not charge military salaries to BPC cases. Direct military labor costs are charged to applicable military personnel appropriations. MTDS data reporting requirements helps ensure USG or U.S. contracted personnel traveling overseas on case-funded activities are protected by Status of Forces Agreements (SOFA) or other status provisions, where applicable.

C9.4.2.4.1. Defense Security Cooperation Agency Review. DSCA assesses costs contained in the MTDS or planning documents for reasonableness and fairness and verifies consistency with the LOA. [Figure C9.F2](#), depicts the MTDS format for manpower pricing and information. The LOA is provided to the foreign partner for signature. If the foreign partner requests the MTDS, the IA may provide the MTDS with an emphasis that it is a planning document.

C9.4.2.4.1.1. DSCA will return LOAs with manpower errors to the originating IA. Examples of manpower errors include but are not limited to: costs determined not fair and reasonable; incomplete MTDS DSAMS submission or data entries; and/or personnel costs that significantly deviate from Office of Personnel Management (OPM) rates.

C9.4.2.4.1.1.1. Reasonable Assessment of Personnel Costs. The average Work Year (WY) costs for a line is determined when the base personnel salary costs are divided by the number of WYs from the MTDS or planning document. DSAMS calculates the civilian fringe benefit rate on the base personnel salary costs (Step 5) for that Grade unless specific personnel costs are known. One WY is equivalent to 2087 personnel hours per year. Verify the average WY costs against the Office of Personnel Management General Schedule Table at Salaries and Wages. Non-executive federal employees are subjected to a salary limit equivalent to the pay cap for political officials, or Level IV of the Executive Schedule pay rate. When the average WY costs exceed the annual salary cap for non-executive federal employees, the IA must provide the agency's specific legal authority in case remarks.

C9.4.2.4.1.1.2. Reasonable Assessment of Travel Costs. Any line in which the average daily travel costs which exceeds \$1K per day, per person, and per trip must include specific details in the case notes which supports these costs.

C9.4.2.4.2. United States Government Contracted Manpower. For contracted manpower, IAs are required to identify position or function, LOA line-item number, duration, total manpower cost, corresponding FMS Case-Related Manpower Functions and Funding Source row number(s), and Continental United States (CONUS) and In-Country travel. The number of work years and travel costs are not required for USG contracted manpower. See [Table C9.T2A](#), for FMS Case-Related Manpower Functions and Funding Source Manpower Matrix.

C9.4.2.4.3. Amendments and Modifications. For FMS cases, the MTDS is required for all lines involving case-funded manpower being revised through Amendments and Modifications, whether an increase or decrease in scope for Amendments and whether an increase or decrease in price for Modifications. Revised lines must reflect the total manpower, travel (to include identifying CONUS and In-Country), and personnel support costs, not the differences between the previous and revised amounts.

C9.4.2.4.4. Manpower Travel Data Sheets Exemptions. The following items are exempt from the MTDS requirement:

1. Manpower provided as a membership in the USG-sponsored groups identified in Row #SA2 of [Table C9.T2A](#);
2. Manpower provided by the Working Capital Fund (WCF) as long as the manpower is part of the final material total cost and cannot be separated from the unit price (e.g., organic costs). However, if only services are being provided by the WCF, an MTDS is required;
3. Lines involving blanket order CONUS training, Outside the Continental United States (OCONUS) Security Assistance Teams provided training, or schoolhouse-provided training where manpower costs are embedded within the course/tuition rates;
4. Contractor Logistics Support (CLS) using Military Articles and Services List (MASL) number R9A-0761000000CLS;
5. Repair and Return programs;
6. Refurbishment/Overhaul programs;
7. Embedded manpower (e.g., pro-rata share of engineering support) that is part of the materiel cost and cannot be separated from the unit price;
8. Number of Work Years and travel costs for contracted manpower, if unknown;
9. Cases in Supply/Services Complete (SSC) status and the amendment or modification is being processed in preparation for full case closure.
10. DSCA Managed Case Funds for Kuwait and Taiwan support cases.
11. Worldwide Warehouse Redistribution Services seller lines.

Figure C9.F2. Letter of Offer and Acceptance Manpower and Travel Data Sheet

- PDF Version of Figure
- Web Version of Figure

C9.4.2.6. Foreign Military Sales Program Management Services - Tracking Costs. An auditable methodology must be used to document work each individual performs on a program management services line (for cases “accepted” on or after August 1, 2006) or a Program Management Line (for cases “accepted” prior to August 1, 2006). Personnel charges must be identifiable by position number, employee identification number, or other traceable means.

C9.4.3.1. Change in Status of International Military Education and Training - Recipient Country.

C9.4.3.1.2. The rate to be charged for education and training is established at the time of sale, not at the time that the education and training begins or periods to which it may extend. The rate, whether incremental or full, will continue to apply to all education and training provided under the LOA, or Amendments to it, until the total value of the training line has been obligated. Note: Incremental pricing and full pricing rates may not be mixed on the same training line.

C9.4.3.1.2.2. If a country is not in receipt of IMET funding at the time of LOA acceptance/signature, then the full rate (Rate A) for education and training is to be charged.

C9.4.3.1.2.4. If an LOA/Amendment has been accepted/signed using full pricing (Rate A) and a country subsequently begins to receive IMET funding during any fiscal year in which training is still to be performed under the case, then that case may be amended to delete any unobligated funds from the full-priced education and training line and a new line added on the LOA which may then be priced at the incremental rate (Rate C) for future education and training requirements. There will be no retroactive/backward adjustments for training already started or scheduled (student in the “training track”). Students that began education and training with the full rate cannot retroactively receive the incremental rate when the case is amended. Only those students starting education and training on or after the Amendment is accepted/signed are eligible to receive the incremental rate.

C9.4.3.2.1. Leave and Holiday Factor. The leave and holidays acceleration factor of 18 percent is not applied to civilian personnel assigned full time to a given requirement.

4.9.4.3.2.3. Unfunded Civilian Retirement. The Unfunded Civilian Retirement (UCR) factor is applied to the base salary, with leave and holiday acceleration when applicable, to recover retirement, post-retirement health benefits, and post-retirement life insurance costs incurred by USG. The UCR factor is published annually with the Civilian Fringe Benefit Rates. These factors may be found at Department of Defense Fiscal Year (FY) Reimbursable

Rates webpage. The UCR factor is applicable to full cost tuition rates and not applied to incremental tuition rates. It is also not applied to BPC cases nor when calculating personnel costs to be reimbursed by the FMS Administrative Surcharge Budget.

C9.4.3.3. Military Fringe Benefits. Military personnel services are priced using the applicable DoD Military Personnel Composite Rate plus an acceleration factor that covers medical health care costs of active duty personnel and their dependents. In addition, rates include a per capita normal cost for Medicare-Eligible Retiree Health Care (MERHC) accruals. These factors are published annually by OUSD(C) at Department of Defense Fiscal Year (FY) Reimbursable Rates webpage. Military fringe benefits consist of quarters (family housing), subsistence, medical (hospital), and other personnel support (e.g., commissary and exchanges). The costs are applicable to both direct and indirect military salaries and are computed by applying the acceleration factors for officer and enlisted personnel. These costs are included for all military personnel allocated to the training course. Tuition rates D and E exclude both direct and indirect military salaries; therefore, military fringe benefits are excluded as well. Military fringe benefits costs, used as part of base operating support (BOS) costs and allocated to training courses, are used as indirect costs in the tuition rates. The costs must not be duplicated in the tuition rates by also being included as direct and indirect costs under Pay and Fringe Benefits.

C9.4.3.4. Maintenance and Repair of Facilities. These costs are part of the normal base operating costs. When training facilities are used for security assistance (SA) courses, the costs are included as indirect costs in the tuition rates.

C9.4.3.5. Attrition Charges for Foreign Military Sales Training. Attrition charges are included in tuition Rate A for flying and/or non-flying training courses whenever the training or educational course includes the use of training equipment or operational equipment used as training aids. For all other FMS tuition rates (e.g., Rates B, C, and D) and non-tuition based training that includes the use of training/operational equipment as training aids, the liability statement, as provided in DoD 7000.14-R, Volume 15, Chapter 7, is applied. For dedicated training programs, provisions of the LOA must state whether an attrition factor is charged or some other arrangement has been made concerning the destruction of equipment in the liability statement. Attrition charges are recorded directly into the attrition account. DSCA must approve use of these funds. When equipment is damaged beyond repair due to FMS student error, a report of the loss and request for funding to cover procurement of the replacement items is submitted for DSCA (Office of Business Operations (OBO)) approval. After DSCA approval is obtained, the Military Department (MILDEP) forwards a request (with a copy of the DSCA approval) to Defense Finance and Accounting Services - Indianapolis (DFAS-IN) to process the payment from the attrition account to the appropriate recipient(s).

C9.4.4. Asset Use, Tooling Rental, or Facility Rental.

C9.4.4.1. Charges for Use of United States Government-Owned Facilities. Fair pricing legislation removed the requirement to apply asset use, tooling rental, or facilities rental charges on FMS cases using USG property. Commercial sales of defense articles to any foreign country or international organization include charges for use of USG-owned facilities, plants, and production or research equipment in connection with the production of the defense articles. Collections of these costs are deposited into the Miscellaneous Receipts Account 3041.

C9.4.4.2. Rental Charges for Use of Department of Defense Assets. Commercial sales of defense articles produced in Government-owned facilities or with Government-owned industrial plants and production or research equipment for which a rental charge is assessed in accordance with the Federal Acquisition Regulation (FAR) Part 52.245-9 and the Defense Federal Acquisition Regulation Supplement (DFARS) Part 245.4 must include the rental charge in the sales price. The rental charge in commercial contracts may be waived on a case-by-case basis. See Section C9.6.4.

C9.4.4.3. Use of United States Industrial Plant Equipment or Production and Research Property for Foreign Countries or International Organizations. Non-government use of industrial plant equipment or production and research property requires prior written approval of the contracting officer or Departmental level approval, depending upon the percentage of usage, in accordance with provisions in DFARS 245.3. Such approval may be granted only if use does not interfere with U.S. requirements, and the work is in support of FMS or Direct Commercial Sales (DCS) approved under the AECA. The rental charges in commercial contracts can be waived on a case-by-case basis. See Section C9.6.4.

C9.4.5. Nonrecurring Cost Recoupment Charges. DoD 7000.14-R, Volume 15, Chapter 7, and DoDD 2140.02 provide detailed guidance on establishing NC charges and pricing these costs on LOA documents. These costs do not apply to cases that are fully financed with non-repayable Foreign Military Financing (FMF) or non-repayable Military Assistance Program (MAP) funds. See Section C9.6.3, on NC waiver requirements and processes. For questions regarding the NC charges contact DSCA (Office of International Operations, Global Execution Directorate (IOPS/GEX)). See Appendix 6 for LOA notes relating to NC charges.

C9.4.5.1. Nonrecurring Cost Approval Process. The DoD Components submit requests to establish an NC to the DSCA (IOPS/GEX) using the formats and pricing methodology in DoD 7000.14-R, Volume 15, Chapter 7. Detailed worksheets accompanying NC recoupment charge establishment requests will be marked "Controlled Unclassified Information" unless circumstances require formal classification. DSCA (IOPS/GEX) staffs the package within DSCA, Under Secretary of Defense for Acquisition and Sustainment (USD (A&S)), and USD (C). After coordination, the Director, DSCA approves or disapproves the NC charge and the DSAMS NC table is updated.

C9.4.5.2. Estimated Nonrecurring Cost Charges. There may be instances when an NC charge is being developed at the same time that an LOA is being prepared to sell the item in question. If there is not enough time to complete the NC approval process, an estimated amount for NC should be included in the unit price of the item on the LOA. The LOA should also include a note informing the purchaser that NC charges on the applicable line are estimates only and advising that a modification shall be done to adjust the price once the approved NC value is known. See Appendix 6 for exact note wording.

C9.4.5.3. Determining Nonrecurring Cost Charges When Documentation is Not Available. In cases when historical documentation cannot be found, the MILDEP will calculate the pro rata NC at 5 percent of the last known DoD acquisition cost. The MILDEP is required to submit the proposed NC calculation and the basis for concluding that the Significant Military Equipment (SME) item would have met the MDE threshold to DSCA (IOPS/GEX).

C9.4.5.4. Reporting. NC collections are reported on the DSCA(Q)1112 report prescribed in DoD 7000.14-R, Volume 15, Chapter 7. The report is submitted quarterly by each of the DoD Components, to the DSCA (Office of Business Operations, Financial Policy and Regional Execution Directorate (OBO/FPRE)) within 45 days of the end of each quarter.

C9.4.5.5. Initial Deposit. NC charges will be collected in the initial deposit and transferred to the SDAF account via offsetting collections. See Section SDAF.2.1.5.4, for processing offsetting collections.

C9.4.6. Royalties. As a general rule, the FMS purchasers are treated similar to other Federal Agencies when assessing royalties to a purchase.

C9.4.6.1. Royalties for use of intellectual property that is not subject to contractor proprietary rights restrictions normally are not allowed to be collected on FMS cases. If the USG is required to pay a royalty to a contractor for intellectual property that is subject to contractor proprietary rights restrictions, then it is a legitimate charge to the FMS case and should be included in the end item price. In any situation where a royalty is being considered for collection against an FMS procurement and the same royalty would not be collected against a U.S. Federal Agency procurement, the IA should contact the DSCA (OBO/FPRE) and DSCA (Office of Strategy, Plans, and Policy (SPP)) for guidance.

C9.4.6.2. FMS cases implemented prior to January 1, 1998, contained charges (referred to as royalty fees) for the use of technical data packages (TDPs) used to manufacture or produce items for non-USG use. These charges were reflected on a separate line on the LOA. For those FMS cases, financial accounting processes and reporting continue until case closure. Cases implemented on or after January 1, 1998, do not include royalty fees for use of TDPs

that are not subject to contractor proprietary rights restrictions.

C9.4.7. Small Case Management Line. From August 1, 2006 through July 2, 2012, DSCA implemented an effectiveness measure to reduce the volume of small dollar cases. It was recognized that a certain level of FMS administrative support was required in the implementation and execution of these cases. Based on analysis of data, the amount determined appropriate to charge was \$15,000. Subsequent review of the initiative indicates that the Small Case Management Line (SCML) has served its intended purpose, a reduction in the number of small dollar cases. DSCA rescinded the application of the SCML effective with cases accepted on/after July 3, 2012. DSCA reserves the right to reinstitute the application of the SCML.

C9.4.7.1. Small Case Management Line Rescission Information.

C9.4.7.1.1. Cases "Accepted" between August 1, 2006 and July 2, 2012. All cases "Accepted" between August 1, 2006 and July 2, 2012 that contain an SCML will retain the SCML in effect at the time those cases were accepted unless the current or future case value changes to preclude its application.

C9.4.7.1.1.1. Cases that decrease in dollar value below \$400,000 will not be required to add the SCML.

C9.4.7.1.1.2. Cases with an existing SCML where the case value increases such that the SCML value is reduced to \$0 will not have an SCML value reapplied when the case is subsequently decreased in value below \$400,000.

C9.4.7.1.1.3. Cases with an existing SCML where the case value decreases will not have the SCML value increased.

C9.4.7.2. Small Case Management Line General Information. All cases "Accepted" between August 1, 2006 and July 2, 2012 must collect a minimum amount of FMS Administrative Surcharge unless otherwise exempt. For cases "Accepted" between August 1, 2006 and July 2, 2012, if the case value is so small that the FMS Administrative Surcharge amount calculated is less than \$15,000, a separate line item (an SCML) will be added to the case so that the FMS Administrative Surcharge and the SCML, combined, total \$15,000. [Example: For a case where the calculated FMS Administrative Surcharge is \$500, the SCML value would be \$14,500.]

C9.4.7.2.1. The value of the SCML line item will be adjusted accordingly as a result of changes in case value when the case is amended or modified.

C9.4.7.2.2. Once an SCML has been added to a case, it cannot be deleted. It can be reduced to \$0 if the calculated FMS Administrative Surcharge reaches \$15,000, but the SCML line item will remain on the case.

C9.4.7.2.3. When the FMS Administrative Surcharge is waived for a case, the SCML will be considered part of that waiver and will not be charged.

C9.4.7.2.4. The FMS Administrative Surcharge is not assessed against the SCML.

C9.4.7.3. Small Case Management Line Scope.

C9.4.7.3.1. The SCML requirement applies to all cases (both FMS and BPC) "Accepted" between August 1, 2006 and July 2, 2012 where the case is being financed with any type of funding (e.g., national funds) other than FMF; or the case is being financed using multiple sources of funding (one of which may be FMF); or the case is being financed wholly using FMF monies and the purchaser received more than \$400,000 in FMF funds in the previous fiscal year.

C9.4.7.3.2. The SCML requirement does not apply to cases where the purchaser is using FMF monies to wholly fund the case and received between \$1 and \$400,000 in FMF funds in the previous year. Any exceptions to this policy require the approval of the Director, DSCA.

C9.4.7.3.3. The SCML requirement does not apply to Excess Defense Articles (EDA) cases that are written solely for the purpose of transferring the grant item. These cases will have \$0 case value. If the EDA case includes support (e.g. transportation or refurbishment services), the SCML will apply.

C9.4.7.3.4. The SCML requirement does not apply to any case established for Presidential Drawdowns using the "S9" country code.

C9.4.7.4. Small Case Management Line Case-Writing Requirements.

C9.4.7.4.1. The MASL line and generic code used for the SCML is: (R6C) SMALLCASESUPT SMALL CASE SUPPORT EXPENSES.

C9.4.7.4.2. A one (1) month availability for the SCML will be used on the LOA (block (5) SC/MOS/TA). This will ensure that the entire value of the SCML is included in the initial deposit. Source of supply code "S" must be used for this line. The Delivery Term Code (DTC) and Offer Release Code (ORC) for this line should both be left blank (which will print as a dash on the LOA document).

C9.4.7.4.3. Primary Category Code (PCC) CE1 must be used when pricing this line in DSAMS. No Indirect Pricing Components (IPCs) should be used against this line. DSAMS line type must be entered as CE (this is short for case expense).

C9.4.7.4.4. The SCML note must be included on all cases that include an SCML. See [Appendix 6](#) for specific note wording.

C9.4.7.5. Case Closure Requirements for Small Case Management Lines.

C9.4.7.5.1. Increases in Case Value. Cases with deliveries that exceed the current case value require an Amendment or Modification to increase the case value before the case can be closed. See [Section C6.7.2.1.2](#). These Amendments and Modifications must include an appropriate reduction to an existing SCML. If the net case value is increased above the amount needed to achieve \$15,000 in calculated FMS Administrative Surcharge value, the SCML value will be reduced to \$0. The SCML will not be deleted as it must remain on the case and in the Defense Integrated Financial System (DIFS) system to provide an audit trail to the supporting data for previously billed amounts.

C9.4.7.5.2. Reductions in Case Value - Small Case Management Line Already On the Case. Any case which is proposed to close at a value less than its current value will not have an increase made to an existing SCML. The case will be certified for closure using the current value of the SCML.

C9.4.7.5.3. Reductions in Case Value - Small Case Management Line Not On the Case. Any case "Accepted" between August 1, 2006 and July 2, 2012 which is proposed to close at a value less than its current value, where the corresponding FMS Administrative Surcharge would now be below \$15,000, does not require the addition of an SCML. The case will be certified for closure at the current FMS Administrative Surcharge value.

C9.4.7.5.4. Small Case Management Line Delivered Amount Adjustments. When the delivered FMS Administrative Surcharges on non-SCML lines result in the need to adjust the SCML delivered amount upward and that adjustment would result in the delivered value exceeding the ordered value on the SCML line by less than \$1.00 (usually as a result of rounding), DFAS-IN is authorized to process an FMS Administrative Surcharge flat charge to the first, viable non-SCML line item on the case for any amount under \$1.00. In this circumstance, a modification to the case is not required.

C9.4.8. Defense Articles Sold via Foreign Military Sales from Stock. When selling defense articles to eligible foreign countries and international organizations from DoD stock under Section 21 of the AECA, as amended ([22 U.S.C. 2761](#)), the IA must determine whether to categorize an FMS sale as one with intent to replace or not to replace.

C9.4.8.1. Sale Without Intent to Replace the Defense Article. If, at the time an agreement for sale of a defense article under Section 21 was entered into, the IA does not intend to replace the defense article being sold, then the price charged to the purchaser will be the actual value of the defense article being sold, which is DoD's acquisition cost of the item being sold, less any depreciation.

C9.4.8.1.1. The proceeds from sales of defense articles sold without intent to replace that are paid with national funds of the FMS purchaser must be deposited into the Special Defense Acquisition Fund (SDAF), consistent with Section 51 of the AECA ([22 U.S.C. 2795](#)) and guidance in the DoD FMR (see [Volume 3, Chapter 15, subparagraph 3.5.6](#)). The proceeds from sales of defense articles sold without intent to replace that consist of U.S. grant assistance to include FMF and funds for BPC programs and activities, must be deposited into the U.S. Treasury as miscellaneous receipts, per [31 U.S.C. 3302\(b\)](#).

C9.4.8.2. Sale With Intent to Replace the Defense Article. If, at the time an agreement for sale of a defense article under Section 21 is entered into, the IA intends to replace the defense article being sold with any defense article to address a loss of capability or readiness from such sale, then the amount charged to the purchaser for the cost of the replacement article must be one of the following:

C9.4.8.2.1. The estimated amount to replace the article sold with the identical type, model, and series of defense articles, less any depreciation of the article sold, OR

C9.4.8.2.2. When replacement with an article described in [Section C9.4.8.2.1](#), will not meet IA requirements, the estimated amount necessary to replace the article sold with a newer model, modified version, or variant (refer to [Section C9.4.8.4](#)) that serves as a functional equivalent to the defense article that is being sold, less any depreciation of the article sold; OR

C9.4.8.2.3. When a replacement article described in either [Section C9.4.8.2.1](#) or [Section C9.4.8.2.2](#), is not obtainable, the amount equal to the last acquisition cost of the article sold, less any depreciation of such article.

C9.4.8.3. The proceeds of defense articles sold with intent to replace must be deposited into the current procurement account necessary to facilitate the IA's replacement of the article (see [DoD FMR Volume 15, Chapter 3, subparagraph 9.2](#)).

C9.4.8.4. Definition of a Newer Model, Modified Version, or Variant. For the purpose of pricing defense articles described in [Section C9.4.8.2.2](#), a new model, modified version, or variant of a defense article sold is that article's "functional equivalent" if it allows the IA to meet the same operational objectives as the article sold under similar constraints or limitations (e.g., AIM-9M replaced with AIM-9X). When the desired replacement article is designed to accomplish a particular operational objective in an advanced or fundamentally different way (e.g., a guided missile vs. an unguided missile), or to accomplish distinct operational objectives beyond those made possible by the article sold (e.g., aircraft capable of vertical take-off and landing vs. horizontal only), the desired article will not be considered a functional equivalent.

C9.4.8.4.1. In cases where the IA intends to acquire such an article as a replacement for an article sold under Section 21, the amount charged to the purchaser must still comply with the pricing parameters detailed in [Sections C9.4.8.2.1](#) through [C9.4.8.2.3](#).

C9.4.8.5. FMS Purchase from DoD Stock vs. Other Means of Procurement. When replacement sales under Section 21 result in a price to the purchaser that is substantially higher than the actual value of the article sold, the IA administering FMS will ensure that the purchaser is fully aware of the cost-value differential and clearly desires to proceed with a transaction despite such differential prior to entering into any binding FMS agreement (e.g., a LOA). In such cases, FMS purchasers should understand that the price reflects the requirement for the USG to minimize readiness impacts to the DoD when executing the FMS program, and that the purchaser may realize greater value by choosing to forego an FMS purchase from DoD stock and seek to obtain the desired articles through other means.

C9.4.8.6. Munitions. Munitions that are serviceable retain their full value and should not be depreciated in accordance with standard depreciation timetables. Munitions are defined in [10 U.S.C. 101\(e\)\(4\)](#). Notwithstanding this definition, provisions in the SAMM that restrict sales of specific categories of munitions under the FMS program (e.g., [Section C4.5](#)) remain applicable.

C9.4.9. Line Level Review Related to Letters of Offer and Acceptance

C9.4.9.1. Amendments and Modifications. Due diligence should be employed by the IAs in reviewing cases, lines, and finances on a continuous basis to ensure correctness and limit the return of cases. The following procedures outline the level of pricing detail that should be researched and/or the pricing updates that should be accomplished when LOA amendments and modifications are processed.

C9.4.9.1.1. For any implemented lines on a LOA affected by the amendment or modification, also called "Touched Lines", the following applies:

C9.4.9.1.1.1. The pricing is to be updated for touched lines, to include the correct Primary Category Code (PCC) structure and correct/appropriate IPCs (e.g., NC recoupment charges, Contract Administration Services (CAS), FMS Administrative Surcharge, and Transportation).

C9.4.9.1.1.1.1. For Logistics Support Charge (LSC), the line should be reviewed by the IA to determine what deliveries have already been made with shipment dates prior to 1 October 2007. The LSC should be recalculated against only those deliveries and the pricing adjusted accordingly.

C9.4.9.1.1.1.2. Although not mandatory, IAs should consider updating LSC values, as appropriate, when an LOA amendment or modification is being processed. However, if an FMS purchaser has requested the reallocation of funds within a case or if the FMS purchaser has requested that the LSC be reduced to reflect actual charges, the IA must adjust LSC pricing as appropriate. The IA should also consider adjusting LSC pricing if doing so could make funds available on a line to pay for new requirements being added to that case line via an LOA amendment (even if the FMS purchaser has not specifically asked). In this situation it is within the discretion of the IA to determine when LSC pricing adjustment is appropriate; the LOA amendment or modification will not be returned for the sole reason that LSC was not adjusted.

C9.4.9.1.1.2. The DSAMS pricing coding must be updated to ensure proper Apply (AP)/Waive (WC) codes are used for each IPC even if the price/value is otherwise correct. The key aspect of an IPC is to assign the correct estimate for that surcharge. Pricing codes of AP-0%, WC, or Not Applicable (NA) are all acceptable pricing coding for IPCs when the net result is \$0. When necessary to use Override Cost (OC)/Override Percent (OP), a justification must be entered for each IPC in the Line Price Estimation Screen.

C9.4.9.1.2. For any implemented line that is not part of the LOA amendment or modification, also referred to as "Untouched Lines", the following applies:

C9.4.9.1.2.1. Identify and fix pricing and price coding issues that do not conform to current policy/guidance in all amendments or modifications as they are being developed. If the price/value that is calculated and included in the value of the case is incorrect, the incorrectly priced line item must be added to the amendment or modification and the pricing fixed. For example, if NC or CAS costs should have been applied and were not, the line must be corrected now that it is known there is a pricing mistake.

C9.4.9.1.2.1.1. Once an IA has forwarded the documents to DSCA (Office of International Operations, Global Execution Directorate, Case Writing and Development Division (IOPS/GEX/CWD)) for processing, an LOA document should not be returned to the IA when it is determined there is an incorrect pricing/pricing component(s) on untouched case lines during the review process (unless preparing for closure, in which case the correction must be addressed on the document in process). Instead, the DSCA reviewers will enter case remark into DSAMS that identifies the line and the action that must be taken on the next iteration of the document (i.e., the next amendment or modification to the LOA) and "Approve with Comment" in the Case Tracking System (CTS). DSCA (IOPS/GEX/CWD) has established two milestones in DSAMS to monitor and track these types of future correction required events – FUTCORREQW and FUTCORREQR. [Note: A case level report, RP-434, allows users to view whether a document has any open corrections required.] DSCA (IOPS/GEX/CWD) posts the appropriate FUTCORREQ milestone and reason codes based on the reviewer's comments.

C9.4.9.1.3. "Touched" and "Untouched Lines" on Letter of Offer and Acceptance Amendments and Modifications. Agreement among pricing components, Source of Supply (SoS), and DTCs. The following are examples of the application of pricing components with the proper SoS and DTC.

C9.4.9.1.3.1. Correct Price Element Coding. The Price Element (PE) code assigned to a PCC must be appropriate to the SoS of the line, or portion of the line. The most common issue is incorrect usage of the PE Code for Contract Cost (CC). As an example, a line is coded SoS "S" and the PE code reflects "CC". This is incorrect since "CC" indicates the inclusion of Termination Liability (TL) in the payment schedule which is applicable only to lines coded with SoS "P" or "X". SoS "S" lines cannot reflect a PE of "CC". Similarly, the PCC for "P" coded lines (or "P" portions of an "X" line) must have a "CC" PE code.

C9.4.9.1.3.2. "X" Coded Line Structure. SoS "X" coded lines, (mixed stock and procurement), must reflect a minimum of two PCCs, one for stock and one for procurement, with the CAS appropriately applied to the procurement PCC. The PCCs also must have the correct PE coding.

C9.4.9.1.3.3. Lines with Embedded Manpower. As an example, Army ammo lines may be reflected on the LOA with SoS "P"; however, the RP069 – Document Pricing Calculations, must reflect the two separate PCCs – one for procurement action and one for manpower costs.

C9.4.9.1.4. Lines Implemented Prior to and Converted into the Defense Security Assistance Management System. For most cases that have lines which were implemented at the time of conversion into DSAMS, it may be difficult to determine the specific add-on percentages for the IPCs or an appropriate breakout of IPCs. In these instances, during development of the LOA amendment or modification, the IA will provide a comment in the case remarks to explain that detailed pricing breakouts are not available without excessive expenditure of resources. However, lines which were added to those pre-DSAMS cases on/after 1 October 2001, must be in compliance with applicable pricing rules. For new lines added after DSAMS conversion, as reflected on the RP079 – Document History Report, or RP087 – Case Line History, existing procedures apply. A case will not be returned simply based on the inability to provide the cost breakouts on pre-DSAMS lines. If there are no comments provided to indicate what the general pricing contained, then the case will be returned to the IA.

C9.4.9.1.5. Transportation. For materiel lines that have an associated line for a Special Assignment Airlift Mission (SAAM) flight, the IA should enter the appropriate DTC against the materiel line based on the mode of transportation provided (e.g., port-to-port, depot-to-in-country destination) and the rate area where articles are being delivered. For example, a materiel line may reflect a DTC 7 or DTC 9 with an OP at 0% and the remarks should state that it is a SAAM flight. The IA must also indicate in the line note if Continental United States transportation is included in the pricing of the materiel line or if the USG is responsible for such costs (non-Working Capital Fund line). If the latter is applicable, the LOA line must reflect DTC 2/"DTC X" (ex. DTC 2/7). DSAMS Delivery Term Code Distribution Screen should be set to 100% for DTC 2 and 0% for DTC 7 to ensure DTC 2 is assessed below the line.

C9.4.9.2. Continuous Review of Financial Obligations, Commitments, Delivery, and Billing. Similar to pricing, continuous review of the financial obligation, commitment, delivery, and billing status of an LOA should be an ongoing process to ensure the document is financially viable at all times. As with pricing, the goal/intent of this analysis is to review the overall financial status of a document when preparing new LOA amendments and modifications. The Case Validation is a useful tool to identify when a line is being/has been reduced below the level of obligations, commitments, deliveries, and billings being reported by the IA financial systems. However, if the timing/need for the document is critical, it may not be feasible to perform a detailed reconciliation of funding on the line to determine if a line amount adjustment is actually required and appropriate. In this case, the IA should document the financial out of balances in a case remark, recognizing it will correct those imbalances within a certain timeframe (stated in the case remark), and cover such costs if not corrected at that time of the next amendment or modification. If, during the review process, it is determined that not covering the financial imbalance will result in an unacceptable cash balance for the customer or some other egregious financial condition, the document will be returned to the IA unless the IA's case remarks in DSAMS adequately address the imbalance. This financial reconciliation of obligations and disbursements is related to but separate from the pricing issues discussed above. Nothing in this paragraph should be interpreted to alter the requirements to apply appropriate pricing as discussed otherwise in the SAMM or other pricing memos.

C9.5. - Foreign Military Sales Charges

C9.5.1. [Table C9.T4.](#) is a list of charges used in Foreign Military Sales (FMS) pricing. This list is not all-inclusive. [DoD 7000.14-R, Volume 15, Chapter 7](#), contains detailed guidance.

Table C9.T4. Table of Charges

Click to view:

[Table C9.T4. Table of Charges](#)

[Table C9.T4A. Table of Delivery Term Codes and Percentages](#)

C9.6. - Pricing Waivers

C9.6.1. Waiver of Foreign Military Sales Administrative Surcharge. Costs associated with administering the Foreign Military Sales (FMS) program must always be paid and/or collected ([Arms Export Control Act \(AECA\), section 21\(e\)\(1\) \(22 U.S.C. 2761\(e\)\(1\)\)](#)). If a waiver of the FMS Administrative Surcharge for the purchaser is approved in one of the circumstances described below, it must still be recouped from another funding source.

C9.6.1.1. Waiver by the Implementing Agency. DoD 7000.14-R, Volume 15, Chapter 7, and [AECA, section 21\(e\)\(2\) \(22 U.S.C. 2761\(e\)\(2\)\)](#) allow the Implementing Agency (IA) to waive or reduce FMS Administrative Surcharges that should be assessed to the purchaser on the Letter of Offer and Acceptance (LOA) as long as the IA obligates its own operation and maintenance appropriations to pay the FMS Administrative Surcharge Account the waived and/or reduced amount. Any FMS Administrative Surcharge waivers approved apply to the Small Case Management Line (SCML) as well.

C9.6.1.2. Waiver of Administrative Surcharges for North Atlantic Treaty Organization Support Organization's and its executive agencies' Foreign Military Sales Programs. [AECA, section 21\(e\)\(3\) \(22 U.S.C. 2761\(e\)\(3\)\)](#), allows the waiver of FMS Administrative Surcharges for North Atlantic Treaty Organization (NATO) NATO Support and Procurement Agency (NSPA), once called NATO Support Organization (NSPO), programs under very specific circumstances. Waiver of FMS Administrative Surcharges on these cases is not retroactive; only LOAs implemented after October 1, 1988, are eligible for consideration. The waiver value includes the calculated FMS Administrative Surcharge amount and any SCML value included on the LOA. Only NSPA LOAs in support of support partnership agreements or NATO Supreme Headquarters Allied Powers, Europe (SHAPE) projects (i.e., common-funded projects supported by allocated credits from NATO bodies or by host nations with NATO infrastructure funds) qualify for FMS Administrative Surcharge waivers. FMS Administrative Surcharges waived under this program must be reimbursed to the FMS Administrative Surcharge Account from Major Force Program (MFP) 10 funds controlled by the U.S. Mission to NATO. The following procedures apply:

C9.6.1.2.1. NSPA includes a statement in its Letter of Request (LOR) indicating the LOA qualifies for an FMS Administrative Surcharge waiver under [AECA, section 21\(e\)\(3\) \(22 U.S.C. 2761\(e\)\(3\)\)](#). NSPA identifies the specific NATO/SHAPE project supported by the request and includes the following statement:

"This is a joint coordinated request with the U.S. Mission to NATO. The U.S. Mission to NATO certifies intent to reserve and obligate MFP 10 funds for FMS Administrative Surcharges waived over the life of the LOA. It further certifies that MFP 10 funds have been obligated in the amount of one-half of the FMS Administrative Surcharges computed based on the dollar value of items or services estimated to be reported as delivered in the first year for all LOAs."

C9.6.1.2.2. NSPA provides an information copy of the LOR to the U.S. Mission to NATO when an FMS Administrative Surcharge waiver is requested. For budgeting purposes, NSPA provides a yearly estimate of the amount of FMS Administrative Surcharge waivers to the U.S. Mission to NATO.

C9.6.1.2.3. The IA reviews the waiver request to ensure it supports projects cited in [AECA section 21\(e\)\(3\) \(22 U.S.C. 2761\(e\)\(3\)\)](#). The IA provides a copy of the request to the DSCA (Office of International Operations (IOPS)) and ensures that the U.S. Mission to NATO has agreed to reimburse DoD. The IA includes a statement in the LOA notes indicating the FMS Administrative Surcharge, to include any SCML value, has been waived. See [Appendix 6](#) for the specific wording of this note. The IA includes relevant correspondence when the LOA document is sent to DSCA for countersignature.

C9.6.1.2.4. DSCA determines applicability to specific requests and approves waivers during final staffing of the LOA document prior to countersignature.

C9.6.1.2.5. The U.S. Mission to NATO budgets for waived FMS Administrative Surcharges, advises DSCA of agreements to reimburse DoD for waived FMS Administrative Surcharges before the LOA is issued to NSPA, and develops an understanding with NSPA concerning programs for which waivers are supported. The U.S. Mission reserves and obligates MFP 10 funds for waived FMS Administrative Surcharges under this legislation for the life of the FMS case. For cases where the calculated FMS Administrative Surcharge value is greater than \$30,000, 35 percent of the FMS Administrative Surcharge is recouped as part of the initial deposit. The remaining 65 percent is recouped based on the delivery schedule of the line.

C9.6.2. Waiver of Contract Administration Services. The [AECA, section 21\(h\) \(22 U.S.C. 2761\(h\)\)](#) allows the USG to provide quality assurance, inspection, Contract Administration Services (CAS), and contract audit defense services without charge to certain foreign governments who have reciprocal agreements. [Table C9.T5](#), [C9.T6](#), and [C9.T7](#), list approved CAS waiver agreements. The waiver under each agreement applies only to new FMS LOAs with implementation dates (as recorded in Defense Security Assistance Management System (DSAMS)) on or after the effective date of the reciprocal agreement. See [Appendix 6](#) for CAS Waiver LOA note wording.

C9.6.2.1. [Table C9.T5](#) provides a listing of approved reciprocal country agreements. Under Secretary of Defense for Acquisition and Sustainment (USD (A&S)) is responsible for negotiating these agreements. These waivers apply to LOAs as a whole and not to individual LOA lines.

C9.6.2.2. [Table C9.T6](#) provides a listing of approved agreements relating to participating groups, organizations, or projects. Changes to this listing should be submitted to the DSCA (Office of Business Operations (OBO)).

C9.6.2.3. [Table C9.T7](#) provides a listing of approved NATO CAS reciprocal agreements. Changes to this listing should be submitted to the DSCA (OBO).

Table C9.T5. Approved Reciprocal Country Agreement Listing

(Office of Primary Responsibility (OPR): USD(A&S))

Country/Security Assistance Country Code	Effective Date	Cost Waived
Australia (AT)	April 11, 2013	Quality Assurance and Inspection
Belgium (BE)	April 26, 1983	Quality Assurance and Inspection
Canada (CN)	July 27, 1956	Contract Audit
	April 1, 1984	Quality Assurance and Inspection

Czech Republic (EZ)	May 7, 2004	Quality Assurance and Inspection
Denmark (DE)	April 3, 1985	Quality Assurance and Inspection
France (FR)	July 17, 1981	Contract Audit
	April 23, 1986	Quality Assurance and Inspection
	April 23, 1986	Contract Administration Services
Germany (GY)	December 6, 1983	Quality Assurance and Inspection
	December 6, 1985	Contract Audit
Greece (GR)	September 23, 1992	Quality Assurance and Inspection
Israel (IS)	May 7, 2008	Quality Assurance and Inspection
Italy (IT)	January 7, 1983	Quality Assurance and Inspection
Japan (JA)	April 17, 2023	Quality Assurance and Inspection
Korea (KS)	December 13, 2011	Quality Assurance and Inspection
Netherlands (NE)	April 9, 1982	Quality Assurance and Inspection
	April 18, 1985	Contract Audit
Norway (NO)	November 23, 1986	Quality Assurance and Inspection
Poland (PL)	June 22, 2007	Quality Assurance and Inspection
Romania (RO)	December 1, 2015	Quality Assurance and Inspection
Slovak Republic (LO)	December 8, 2015	Quality Assurance and Inspection
Spain (SP)	June 12, 2000	Quality Assurance and Inspection
Republic of Türkiye (TK)	March 12, 2001	Quality Assurance and Inspection
United Kingdom (UK)	October 30, 1979	Contract Audit
	December 30, 1985	Quality Assurance and Inspection

Table C9.T6. Approved Agreements Relating to Participating Groups, Organizations, or Projects

OPR: DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE))

Groups/Organizations/Projects	Effective Date	Cost Waived
European Participating Governments (EPG)*:		
Follow-On Buy Country Codes = F1, F2, F3, F4 (Case Designator = SVI), and F4-SXC	December 19, 1980	Contract Audit Quality Assurance and Inspection
Mid-Life Update, Production Phase Cases and new F 16 LOAs implemented on or after the effective date.		

Country Codes = F1, F2, F3, F4 (Case Designator = NMP)	April 5, 1993	Contract Audit
PT (New F-16 LOAs implemented on or after the effective date) (Case Designator = NAE)	June 21, 2000	Contract Audit
Polaris Project: United Kingdom Polaris Project (UZ)	Under Secretary of Defense (Comptroller) (USD(C)) memo October 27, 1995	Contract Audit
	General Counsel of the DoD memo October 24, 1995	Quality Assurance and Inspection Contract Administration Services
*The remainder of the F-16 LOAs for BE, DE, NE, and NO get the CAS waivers reflected in Table C9.T5 .		

Table C9.T7. North Atlantic Treaty Organization Reciprocal Contract Administration Services Agreements

To determine program eligibility for NATO programs contact DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP))

Agreement	Effective Date	Cost Waived
NATO (NATO Command or NATO Agency administered program funded by the NATO Security Investment Program (NSIP) (formerly infrastructure))	September 30, 1981 October 28, 1980	Contract Audit Quality Assurance and Inspection
NATO (All other infrastructure programs administered by a host country)	February 10, 1981	Quality Assurance and Inspection
NATO E-3A	Program Conception (10 USC 2350e)	Full waiver of all contract administration to include: <ul style="list-style-type: none"> Contract Audit Quality Assurance and Inspection Contract Administration Services
NATO Integrated Communication System Management Agency (NICSMA)	September 30, 1981 May 6, 1980	Contract Audit Quality Assurance and Inspection

C9.6.3. Waiver of Nonrecurring Cost Recoupment Charge.

C9.6.3.1. Basis for Nonrecurring Cost Waiver and/or Reduction. Nonrecurring Cost (NC) charges may be waived or reduced as follows.

C9.6.3.1.1. For sales that would significantly advance U.S. interests in NATO standardization; standardization with the Armed Forces of Japan, Australia, the Republic of Korea, Israel, New Zealand; or foreign procurement in the United States under co-production arrangements (refer to [AECA 21\(e\)\(2\)](#) (22 U.S.C. 2761(e)(2)).

C9.6.3.1.2. For the sale of Major Defense Equipment (MDE) also being procured for U.S. Armed Forces and resulting in a cost savings to the U.S. on the U.S.-procured equipment that substantially offsets the revenue lost as a result of the waiver.

C9.6.3.1.3. For sales when imposition of the charge would likely result in the loss of the sale.

C9.6.3.1.4. For the sale of MDE at a reduced price due to age or condition, the NC is reduced by the same percentage.

C9.6.3.2. Nonrecurring Cost Waiver Process. NCs may be waived or partially waived on a case-by-case basis; blanket waivers are not considered. In most cases, the purchaser's request must be submitted to the USG prior to acceptance of the LOA (or Amendment for increased quantities); however, some waiver requests for NATO interoperability may be approved after the LOA (or Amendment for increased quantities) is accepted.

C9.6.3.2.1. Purchasers submit NC waiver or reduction requests to the Military Department (MILDEP) (preferably with the LOR). If the MILDEP concurs, it endorses the request and submits it to DSCA (IOPS) for approval. The package must include: a copy of the purchaser's written NC waiver request (including reason and/or justification), MILDEP concurrence (or non-concurrence), FMS case identifier, description and quantity of items, NC amounts to be waived (pro rata and total), and any information about cost deviation (i.e., if the proposed pro rata waiver cost does not match the approved pro rata NC charge). DSCA (IOPS) staffs the package within DSCA, USD (A&S), and USD (C); additionally, if the basis of the NC waiver is "loss of sale", the package is staffed within the Office of the Under Secretary of Defense for Policy (OUSD (P)). After coordination, the Director, DSCA approves, partially approves, or disapproves the NC Waiver and the MILDEP is notified.

C9.6.3.2.2. Waiver requests based on loss of sale must clearly state that denial of the waiver request will result in the loss of the sale. A competing item and its cost, if known, should be identified in the waiver request. The purchaser's representative authorized to accept (sign) LOAs should sign the request. For loss of sale waivers, the waiver must be approved and NC charges deleted before the purchaser accepts the LOA or Amendment. Acceptance by the purchaser of the LOA or Amendment, which includes the NC charges, negates this basis for a waiver request based on loss of sale.

C9.6.3.2.3. Waiver requests based on offsetting USG costs must be validated by the MILDEP to determine if U.S. cost savings would be realized. The savings must substantially offset the revenue given up by the waiver. The MILDEP determination is coordinated with the MILDEP's Comptroller organization and is provided to DSCA (IOPS) prior to submitting the LOA or Amendment for countersignature. This waiver authority does not apply to sales from stock unless the equipment is to be replaced by current DoD procurement of additional equipment for the U.S. Armed Forces.

C9.6.3.2.4. Section C5.5.5.1.1.4, specifies classification requirements for response documents when waiver requests require congressional notification pursuant to [AECA, section 36\(b\)](#) (22 U.S.C. 2776(b)).

C9.6.3.2.5. An NC charge may be collected as part of a cooperative project or consortium of which USG is a member. If a waiver of these costs is permitted, a special note is included in the LOA. See [Appendix 6](#) for wordings on NC notes.

C9.6.3.2.6. A partially approved NC waiver for increased line-item quantities against an existing line granted a full waiver requires a new line added to the case. This process captures the increased quantities at the partially approved cost.

C9.6.4. Waiver of Tooling Rental Charges for Use of Department of Defense Assets. A contractor may use Government property on work for foreign governments and international organizations only when approved in writing by the contracting officer having cognizance of the property. Requests for waiver or reduction of charges for the use of Government property in cases of direct commercial sales to FMS eligible countries and international organizations should be submitted to the contracting officer, who is authorized to approve the requests in consultation with the appropriate functional specialist. For more information, please refer to the [Defense Federal Acquisition Regulation Supplement \(DFARS\) Part 245, Government Property](#).

C9.7. - Methods Of Financing

C9.7.1. National Funds. Foreign Military Sales (FMS) partners are encouraged to use national funds (cash) for security assistance (SA) payments. If an FMS partner uses third-party funds, such as donations or private financing (without USG guarantee) for an FMS payment, then the USG will treat those funds as national funds.

C9.7.1.1. Private or Third-Party (i.e. non-United States Government) Funds. Potential FMS partners who use third-party funds, which may include third-party financing or donations, must understand that any third-party entity does not have access or rights to materiel or services provided under the Letter of Offer and Acceptance (LOA) without advance approval of the Department of State (State). Third-party funds or financing are any funds provided to the USG as payment for an FMS purchase where the source of those funds originate from a source other than the FMS partner's national funds. This may include, but is not limited to, donations or loans from another country, payments from commercial companies or loans from an international lender. Restricted sources include, but are not limited to, the countries identified within the [International Traffic in Arms Regulation \(ITAR\), Section 126.1.](#)

C9.7.1.1.1. Attempts to use, or actual use of, a restricted source may raise concerns, impede, or stop the progression of an FMS sale. Additionally, State will adjudicate documented ITAR violations. FMS partners needing clarification on third-party fund sources should direct inquiries to the cognizant Security Cooperation Organization (SCO), which will forward such inquiries to DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE)), for response, as appropriate. DSCA (OBO/FPRE) will coordinate inquiries with State, Bureau of Political-Military Affairs, Office of Regional Security and Arms Transfers (PM/RSAT) is the decision authority on whether a third-party funds arrangement raises concern with U.S. law or policy and what remedies would be required for the FMS sale to be completed.

C9.7.1.2. Bank Letter of Credit. Bank Letters of Credit (BLOC) permits the use of a Letter of Credit (LC), a type of third-party loan funding from a commercial bank, Export Credit Agency, or other lending institution, to make payments. The USG should treat these payments the same as national funds, per [Section C9.7.1](#). In all cases, the LC must be in U.S. dollars.

C9.7.1.2.1. Letter of Credit – Uses

C9.7.1.2.1.1. Letter of Credit for Routine Payments. The LC may serve as a replacement for national funds held in the FMS Trust Fund or Interest-Bearing Account, to make routine payments due under the LOAs. The LC must be replenished after each drawdown to ensure that sufficient funds are available. The partner is responsible for ensuring the funds are transferred from the bank to its FMS Trust Fund at the time they receive the DD 645 quarterly bill, or the DSCA Special Bill.

C9.7.1.2.1.1.1. Requirements. In order to utilize BLOC, the partner must be eligible for Dependable Undertaking (DU) or Risk Assessed Payment Schedules (RAPS) and maintain or secure an LC with a dollar determined by DSCA. In addition to the LC, the partner will be required to maintain a cash reserve in the FMS Trust Fund. When determining the value of the LC and the cash reserve, DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) in conjunction with the DSCA (OBO/FPRE) Country Finance Director (CFD), and approval by DSCA (OBO/FPRE), will consider the average monthly disbursement based on a 12 month average, maximum monthly payment amount for the year prior to the LC request, payment frequency (monthly, quarterly, or semi-annually), the value of the partner's FMS program, the time required by the partner and bank to make payment and replenish the LC, and any other factors pertinent to the partner's FMS program.

C9.7.1.2.1.1.2. Replenishment. Within 15 days of drawdown, the partner must replenish the LC to the original dollar value. After each quarterly replenishment, the bank or FMS partner will notify the DSCA (OBO/FPRE) CFD that the replenishment occurred. Reoccurring failure to replenish the LC in a timely manner will result in revocation of the partner's eligibility to use an LC, and/or DSCA issuing a demand letter to the bank for payment under the LC, which may include the remaining balance of the Total Case Value(s) (TCVs).

C9.7.1.2.1.1.3. Adjustments to Letter of Credit Value and Cash Reserve. Not less than once per year, or on an as-needed basis, the DSCA (OBO/FPRE) CFD shall evaluate if the value of the LC and cash reserve are sufficient to cover the partner's FMS program, in accordance with the requirements established during the initial LC implementation. If the LC and cash reserve are insufficient, or will soon be insufficient, due to an increase in the partner's average disbursement, or an expected increase in the FMS program, the partner will be required to increase the dollar value of the LC and the cash reserve, to cover the changed requirements, within 30 days of notification of the needed increase. The DSCA (OBO/FPRE) CFD shall notify the partner of the required increase to the LC within 15 days of the completion of the assessment. A decision by the partner to not increase the dollar value of the LC or cash reserve would amount to a withdrawal from the BLOC program, and the partner would revert to the payment method in place prior to BLOC implementation. This action does not exclude the partner from future eligibility in the BLOC program. If the bank decides to not increase the dollar value of the LC, the partner will be required to obtain an LC for the additional amount. In all situations, the partner may be required to increase the cash reserve to serve as working capital while the amendment or new LC is being finalized.

C9.7.1.2.1.1.4. Termination. If payment is not made within 30 days of the DD645 quarterly bill or the DSCA Special Bill, DSCA may issue a demand letter to the bank for payment. The Memorandum of Understanding (MOU) between the partner and DSCA will provide that, at any time, DSCA may issue a demand letter to the bank that issued the LC. If DSCA is required to issue a demand letter due to the partner's failure to make a timely payment under a relevant LOA, then DSCA may terminate the partner's authorization to use the LC program. If the partner wishes to terminate its use of the LC, it must send a notification letter to the DSCA (OBO/FPRE) CFD at least 90 days in advance of termination. The partner will revert to making national funds payments to the FMS Trust Fund at that time, or sooner if it chooses.

C9.7.1.2.1.2. Letter of Credit for Supplementation of National Funds. The LC may serve as a supplement to national funds to pay for the partner's LOA(s) and shall be treated the same as national funds. The partner may stipulate the level of funds that are provided from national funds, and from the LC, as long as the quarterly payments are made in a timely manner.

C9.7.1.2.1.2.1. Requirements. In order to utilize an LC as a supplement to national funds payments required under applicable LOAs, the partner must be eligible for and utilizing DU or RAPS and secure an LC with a dollar value no less than the amount the partner intends to pay directly from national funds over the lifetime of the case. The partner must maintain six months of available cash, based on the 12 month average disbursement, at all times. Partners with a Special Bill must maintain an available cash level no less than one half the cash reserve requirement built into its Special Billing Arrangement (SBA). The cash requirement is in addition to the LC. The partner is responsible for ensuring the funds are transferred from the bank to their FMS Trust Fund at the time they receive the DD 645 quarterly bill, or the DSCA Special Bill.

C9.7.1.2.1.3. Letter of Credit for Payment Schedules. For payment schedules secured by an LC, refer to Credit Assured Payment Schedules (CAPS) in [Section C9.8.5](#). The LC may be used in place of, or in addition to, a Standby Letter of Credit.

C9.7.1.2.1.4. Other Uses. Other uses for an LC may be proposed on an ad hoc basis and will be evaluated with input and guidance from DSCA (OBO/FPRE), (OBO/FPRE) CFD, (OBO/FPRE/FP), and other relevant stakeholders. Final approval is at the discretion of the DSCA Office of Business Operations Assistant Director.

C9.7.1.2.2. Letter of Credit - Termination Liability. The use of an LC does not change the requirements for termination liability as required under the term of sale for which the LC is being applied.

C9.7.1.2.3. Billing. Billing will occur in accordance with [Section C9.10](#), with the DD 645 or Special Bill being sent to the purchaser, not the bank. It is the responsibility of the purchaser to ensure the bank makes payments to the FMS Trust Fund in a timely manner. In the event a demand letter is issued, DSCA will send the demand letter directly to the bank and provide a courtesy notification to the FMS partner.

C9.7.1.2.4. Eligibility. DSCA (OBO/FPRE/FP) will determine the partner's eligibility for the use of an LC, and will ensure that a proposed bank is qualified to issue or confirm an LC in accordance with [Section C9.9.1.5.4.5.2.4.1](#). Criteria considered to determine the partner's eligibility to use an LC will include: the intended use of the LC, dollar value of the LC, dollar value of the partner's FMS program, the partner's DU or RAPS status; the partner's payment history, and bank eligibility.

C9.7.1.2.5. Letter of Credit Documents.

C9.7.1.2.5.1. Letter of Credit. Partners may obtain an LC issued by an eligible bank. The LC is a formal and independent undertaking issued by a bank to the FMS purchaser, with DSCA as the sole "beneficiary" of the LC. The LC shall specify the responsibilities of the bank and the partner, and it establishes the ability for DSCA to draw upon the LC. The LC, in effect, serves as the bank's guarantee of payment to DSCA, on behalf of the partner, to make timely quarterly payments on an FMS LOA(s) in accordance with the DD645 or SBA.

C9.7.1.2.5.2. Memorandum of Understanding. The MOU governs the relationship and responsibilities of DSCA and the partner. The MOU must be negotiated and signed prior to implementation of the LC. The MOU should include the required value of the LC, the funds required in the partner's FMS Trust Fund or Interest-Bearing Account, the circumstances and process for amendments to the LC value, replenishment for routine payments, the timeline and actions for payment, insufficient LC funds, and stipulations regarding the disbursement schedule in the situation where the partner utilizes an LC as a supplement to making payments with national funds on FMS.

C9.7.1.2.5.3. Demand for Payment (Drawdown). The demand for payment is a letter that DSCA presents to the bank to demand payments from the issuing/confirming financial institution for the amount required by the USG, and it may not exceed the amount of the LC. It is the responsibility of the partner to ensure the bank makes timely payments. A demand for payment letter would only be used by DSCA in the event that payment was not received by its due date.

C9.7.1.2.5.3.1. The demand for payment letter shall be the only document necessary for DSCA to request payment from the bank.

C9.7.1.2.5.4. Letter of Credit Status Report. The DSCA (OBO/FPRE) CFD will maintain, monitor, and track the issuance, activity, and processing of all LC documents and associated LOAs, amendments, and modifications covered by the LC. Not less than yearly, the DSCA (OBO/FPRE) CFD shall report on the status of the LC to DSCA (OBO/FPRE). The report should include the dollar value of the LC, the average quarterly disbursement of the partner's FMS program, the utilization of the LC, and any causes for concern related to the ability of the partner or bank to make payments as required. The DSCA (OBO/FPRE) CFD shall determine if the value of the LC is sufficient to cover the partner's FMS program or if an amendment is required.

C9.7.1.2.6. Roles and Responsibilities.

C9.7.1.2.6.1. Issuing Bank. Issuing bank responsibilities listed at [Section C9.9.1.5.4.4.3](#).

C9.7.1.2.6.2. Confirming Bank. Confirming bank responsibilities listed at [Section C9.9.1.5.4.4.4](#).

C9.7.1.2.6.3. Country Finance Director. The DSCA (OBO/FPRE) CFD shall coordinate the signing of an MOU between the partner and DSCA. The DSCA (OBO/FPRE) CFD will determine the required value of the LC and will work with the partner and the issuing bank to acquire a draft of the LC. The DSCA (OBO/FPRE) CFD is responsible for informing the SCO, Implementing Agencies (IAs) and FMS partner of DSCA's decision regarding the partner's eligibility to use an LC. The DSCA (OBO/FPRE) CFD is also responsible for issuing the demand letter.

C9.7.1.2.6.3.1. The DSCA (OBO/FPRE) CFD will monitor the LC value to ensure the LC is sufficient to make necessary payments to the USG. The DSCA (OBO/FPRE) CFD will monitor collections in the monthly case report to ensure that the partner or bank has made the required payments at the appropriate times. Should there be any issues with payments, the DSCA (OBO/FPRE) CFD will coordinate with the Defense Finance and Accounting Service (DFAS), the partner, and the bank to address concerns. This requirement ensures the bank is making timely payments on behalf of the partner.

C9.7.1.2.6.4. Financial Policy. DSCA (OBO/FPRE) FP is responsible for vetting the issuing bank and the confirming bank, if applicable, to ensure they meet the criteria outlined in [Section C9.9.1.5.4.5.2.4.1](#). DSCA (OBO/FPRE) FP will review and provide concurrence on the DSCA (OBO/FPRE) CFD's assessment of the LC value and the partner's for eligibility for BLOC. Based on its findings, DSCA (OBO/FPRE/FP) will inform the DSCA (OBO/FPRE) CFD of its approval or disapproval of the partner's LC request.

C9.7.1.2.6.5. Implementing Agencies. The IAs will communicate the request to use a unique payment schedule on the LOA checklist upon MILDEP Approval (MILAP), and subsequently upload documentation into the Case Tracking System (CTS) for review and approval by the DSCA (Office of International Operations, Global Execution Directorate, Case Writing and Development Division (IOPS/GEX/CWD)).

C9.7.1.2.6.6. Defense Finance and Accounting Service. If DFAS and the DSCA (OBO/FPRE) CFD determine payments are not being made as required, DSCA with support from DFAS will issue a demand letter against the LC from the issuing/confirming bank.

C9.7.1.2.7. Payment History. In order to establish a positive payment history, the partner should work with the issuing bank to transmit proof of the partner's repayment to the issuing bank.

C9.7.1.2.8. Amendments and Expiration Date Extension. Refer to [Section C9.9.1.5.4](#), as the same applies to an LC.

C9.7.1.2.9. Revocation. In the event of recurring incomplete or untimely payments, DSCA may demand the full value of the LC and revoke the partner's eligibility to use an LC. When an LC is established for routine payments, DSCA will require the partner to deposit national funds in the FMS Trust Fund or Interest Bearing Account. When an LC is established to supplement national funds on one or more LOAs or under CAPS, DSCA may issue a demand letter for the full value of the LC and require "cash with acceptance" for any remaining amount due on the LOA.

C9.7.1.2.10. Termination. In all cases, the termination of the LC prior to its expiration date or non-renewal requires written notification to DSCA no later than 90 days prior to termination or expiration.

C9.7.1.2.10.1. Termination. DSCA may issue a demand letter to the bank if payment from the bank to the FMS Trust Fund does not occur in a timely manner, as required by the payment schedule, DD 645, or DSCA Special Bill. If a demand letter is required, DSCA may terminate the partner's eligibility for BLOC, and the partner would revert to making payments with national funds. If the partner wishes to terminate use of the LC, it must send a notification letter to the DSCA (OBO/FPRE) CFD at least 90 days in advance of the date in which the LC is to be terminated. Subsequent to the termination of the LC, the partner would revert to making national funds payments to the FMS Trust Fund.

C9.7.1.2.10.2. Termination due to Bank Eligibility. If either the issuing bank or confirming bank, as appropriate, ceases to satisfy the eligibility criteria while the LC is in effect, DSCA will notify the partner that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the LC for the remaining amount of the LC. Otherwise, DSCA will require a new LC from a qualifying bank for the uncollected TCV, or will modify the relevant FMS case to require the partner to use national funds to pay the remaining amount of the FMS case.

C9.7.1.2.10.3. Termination by the Bank. Should the issuing bank communicate its decision to revoke the LC, the partner will be required to provide a new LC with another qualifying bank for the required amount or will be required to pay the remaining amount from national funds per the Terms of Sale on the LOA.

C9.7.1.2.11. Closeout. Closeout of an LC, and Confirmation, when relevant, can be prompted by either its termination or expiration. Within 30 days after either event, the bank will be requested to submit to the DSCA Chief Financial Officer (CFO), and to the authorized partner official, a written notice that confirms the LC and Confirmation were closed and that the bank is no longer carrying this contingent liability on its books. Within 15 days after receiving the bank's notice, DSCA will send written confirmation to the partner and the bank that it has also closed the LC and Confirmation on its records. Written confirmation to the partner will also include information on how future funding requirements will be billed until a new LC is implemented. If DSCA executes a demand for payment and the availability of funds does not cover the entire amount required, the partner will have 30 business days to ensure the required amount is fully paid as requested by DSCA.

C9.7.1.2.11.1. If the partner requests that the LC not be extended, not later than 30 business days prior to the expiration date of the LC the partner may request that DSCA either draw the entire amount from the LC or Confirmation and/or make available funds for the required amount for deposit into its FMS Trust Fund account. If the amount available under the LC or Confirmation is not sufficient to cover all funds required at the time of the LC or Confirmation expiration, the partner is responsible for depositing the difference in the amount not less than 30 days prior to the expiration date.

C9.7.2. Foreign Military Sales Credit Sales and Guarantees. When the purchase cannot be financed by other means, credit financing or credit guarantees can be extended if allowed by U.S. law, or if allocated by the State within the annual Foreign Military Financing (FMF) ceiling imposed by U.S. law.

C9.7.2.1. Foreign Military Sales Credits. The [Arms Export Control Act \(AECA\)](#), section 23 (22 U.S.C 2763), authorizes the President to finance procurement of defense articles and services for foreign countries and international organizations. With the exception of charging below market rates of interest, this authority has been delegated to the Director, DSCA, in consultation with the Secretary of State and Secretary of the Treasury. The FMF program is a source of financing and may be provided on either a grant (non-repayable) or direct loan basis. See [Section C9.7.2.7](#) for additional information on FMF.

C9.7.2.2. Foreign Military Sales Credit Guarantees. The [AECA](#), section 24 (22 U.S.C 2764), authorizes the President to guarantee any individual, corporation, partnership, or other juridical entity doing business in the United States (excluding USG agencies other than the Federal Financing Bank (FFB)) against political and credit risks of nonpayment arising out of their financing of credit sales of defense articles, defense services, and design and construction services.

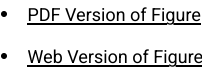
C9.7.2.3. Foreign Military Sales Credit Standards. The [AECA](#), section 34 (22 U.S.C 2774), requires the President to establish standards and criteria for credit and guaranty transactions in accordance with the foreign, national security, and financial policies of the U.S. [Executive Order \(E.O.\) 13637](#) delegates this authority to the Secretary of State with the qualification that, to the extent the standards and criteria for credit and guaranty transactions are based upon national security and financial policies, the Secretary of State shall obtain the prior concurrence of the Secretary of Defense and the Secretary of Treasury, respectively.

C9.7.2.4. Fiscal Provisions Relating to Foreign Military Sales Credits. The [AECA](#), section 37 (22 U.S.C. 2777), specifies that cash payments received under section 21 (22 U.S.C. 2761), section 22 (22 U.S.C. 2762), and section 29 (22 U.S.C. 2769), and advances received under section 23 (22 U.S.C. 2763) shall be available solely for payments to suppliers (including the Military Departments (MILDEPs)) and refunds to purchasers, and are not available for financing credits and guaranties. Amounts received from foreign governments and international organizations as repayments for credits extended pursuant to [AECA](#), section 23 (22 U.S.C 2763) (FMF direct loans), are transferred to either account 11X4121 ("Foreign Military Loan Liquidating Account, Funds Appropriated to the President" - for pre-Fiscal Year (FY)1992 loans) or account 11X4122 ("Foreign Military Financing, Direct Loan Financing Account, Funds Appropriated to the President" - for post-FY1991 loans). The 11X4386 Treasury Account is the FMF Guaranteed Loan Financing Account, pursuant to [AECA](#), section 24(c) (22 U.S.C 2764(c)), which will hold any subsidy funds and fee collections. If Guaranty Reserve funds have been used for a borrower's overdue payment, subsequent amounts received from the borrower shall be merged with the Reserve and shall be available for any purposes for which funds are normally available.

C9.7.2.5. Cash Flow Financing. [AECA](#), section 23(g)(1) (22 U.S.C. 2763(g)(1)), requires Congressional notification of LOAs, Amendments, and commercial contracts for \$100M or greater that are partially or totally funded with FMS credit cash flow financing. These notifications ([Figure C9.F3.](#)) are developed by DSCA (Office of International Operations, Regional Execution Directorate (IOPS/REX)) based on data provided for LOA or Amendment countersignature or for review of commercial contracts. Notifications are provided to Congress by DSCA (Front Office, Strategic Outreach (FO/STO)). Cash flow financing notifications occur concurrently with formal [AECA](#), section 36(b) (22 U.S.C. 2776(b)) notifications and at least 15 days prior to countersignature of LOAs and Amendments or funding clearance for commercial contracts.

Figure C9.F3. Cash Flow Financing Notification Format





C9.7.2.7.3. Offshore Procurement. The AECA, [section 42\(c\) \(22 U.S.C. 2791\(c\)\)](#), prohibits using funds made available under this Act for procurement outside the United States unless the President determines that such procurement does not have an adverse effect on the economy of the United States or the industrial mobilization base. The President's functions under AECA, [section 42\(c\) \(22 U.S.C. 2791\(c\)\)](#), have been delegated to the Secretary of

Defense by E.O. 13637. The authority for issuance of Offshore Procurement (OSP) Waiver Determinations, following concurrence by State and Department of Commerce (DOC), has been further delegated to the Director, DSCA.

C9.7.2.7.4. An OSP Waiver Determination is an exceptional procedure required if any one of the following three circumstances is applicable to the proposed procurement:

1. A foreign partner provides a sole source request for the United States to procure a defense article or defense service from a foreign company (See [Section C6.3.4.1.1.](#)), or
2. The vendor or prime contractor is not either a business incorporated in the United States, or an unincorporated business whose principal place of business is in the United States or its outlying areas, or,
3. The vendor or prime contractor is a business incorporated in the United States, or an unincorporated business whose principal place of business is in the United States or its outlying areas and one-half or less of the dollar value of the end item constitutes U.S. content.

If one of these conditions applies, a waiver to permit OSP may be requested or recommended only when all of the conditions in [Table C9.T8.](#) can be demonstrated.

Table C9.T8. Offshore Procurement Conditions

Condition Number	Offshore Procurement Determination Mandatory Requirements
1	The project otherwise qualifies for financing from funds made available by the USG.
2	The procurement supports mutual U.S. and country interests.
3	The defense article or service must be obtained from foreign sources in order to meet the requirement.
4	A U.S. source item or service cannot be modified to meet the requirement.
5	It is cost prohibitive to procure the item or service in the United States (e.g., a special production run).
6	There is no negative impact on the U.S. industrial mobilization base (e.g., dissolution of a company doing U.S. defense business) or on an area of U.S. labor surplus (e.g., increased unemployment) if the proposed procurement were from foreign sources.
7	There is no negative impact on general U.S. trade patterns or trends if the proposed procurement were from foreign sources.
8	An OSP Determination in this particular instance would not establish a precedent that weakens the USG ability to be even-handed in future requests from the same or other countries.

C9.7.2.7.4.1. Offshore Procurement Determination Process. When submitting an OSP recommendation, the MILDEP provides justification and details to the DSCA (Office of International Operations (IOPS)). DSCA reviews and coordinates the recommendation with State and the DOC. Following concurrence by State and DOC, a formal OSP Determination is signed as shown in [Figure C9.F4.](#) An FMS credit financed LOA may be offered or an FMS credit financed direct commercial contract may be approved, after the OSP Determination is signed.

Figure C9.F4. Offshore Procurement Determination

- [PDF Version of Figure](#)
- [Web Version of Figure](#)

Figure 10.14. Offshore Procurement Determination

Arms Export Control Act, Section 402(a) Determination

Pursuant to Section 402(a) of the Arms Export Control Act and the authority thereunder delegated by Executive Order 13526 to the Secretary of Defense and subsequently redesignated on February 12, 1975, and February 24, 1975, to the Director, DSCA, on this day the Director, the Deputy Director, DSCA, hereby determine that procurement outside the United States, (for the Government of [insert country] or other nation of [the word "insert"] (by the Government of [insert country] pursuant to a direct commercial contract) of [insert general description of defense articles or services] will not result in adverse effects upon the economy of the United States or the industrial mobilization base, and therefore authorize the use of Foreign Military Financing funds made available to the Government of [insert country] for such procurement.

Director, DSCA

Date

Concurrence

Department of the Treasury

Department of State

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C9.7.2.7.4.2. Offshore Procurement Cost Increase Notification. DSCA provides an informal notification to State and DOC when the value of an OSP project exceeds that originally anticipated by 50 percent or \$1 million, whichever is greater. The IA provides details to DSCA (IOPS) for processing the increase notification. An informal memorandum of phone conversations with appropriate officials in State and the DOC may document these notifications.

C9.7.2.7.5. Transporting Foreign Military Sales Credit Funded Cargoes.

C9.7.2.7.5.1. Ocean Transportation. All items purchased with FMS credit must be transported by U.S. flag vessels when ocean transportation is used. FMS credit agreements may contain provisions for certain waivers that, if approved, permit shipment of up to 50 percent of FMS credit funded cargo on vessels of the borrowing country, and in certain instances such cargo may be transported on vessels of a third country. Such waivers are discussed in [Chapter 7](#). FMS credit funds cannot be used to pay the cost of transportation provided by a vessel of non-U.S. registry.

C9.7.2.7.5.2. Air Transportation. FMS credit may be used to pay air transportation costs only if U.S. flag aircraft are used.

C9.7.2.8. Loan Guarantee Sources.

C9.7.2.8.1. Foreign Military Financing Loan Guarantees. The [Federal Credit Reform Act of 1990 \(2 U.S.C. 661\)](#) requires that the President's budget reflect the costs of loan guarantee programs. The loan guarantee is considered Federal Credit and under the requirements of [Office of Management and Budget \(OMB\) Circular A-11](#) requires a subsidy. The subsidy funds are to be paid from the program account - the current Foreign Operations Appropriations Act. There is specific guidance on how to calculate the amount of the subsidy, for which OMB is the decision authority. The Congressional Budget Office (CBO) is responsible for scoring the guarantee(s) against the program account; therefore, specific legislation is required for FMF to finance a loan guarantee.

C9.7.2.8.2. Defense Export Loan Guarantee. [Section 1321 of Public Law \(PL\) 104-106 \(the National Defense Authorization Act \(NDAA\) for Fiscal Year 1996\)](#) directed the Secretary of Defense to establish a loan guarantee program. Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) administers the Defense Export Loan Guarantee (DELG) program; however, the program is not currently funded.

C9.7.2.8.3. Department of Defense Loan Guarantee Program. The DoD loan guarantee program with the FFB, established in 1975, was discontinued in 1984. Repayments to the FFB by debtor countries continue until those loans reach maturity.

C9.7.2.9. Foreign Military Sales Credit Sources.

C9.7.2.9.1. Military Assistance Program Merger Funds. Prior to FY 1982, defense articles and services provided to allied governments or international organizations by grant aid were administered through the Military Assistance Program (MAP). In FY 1982, unused MAP funding was merged into the purchaser's FMS Trust Fund account. The funds are identified within the purchaser's account as MAP Merger and may only be used to finance FMS cases. There are still open FMS cases that cite these "MAP Merger" funds. See [DSCA Policy Memo 24-04 Attachment B - SPS.4.T2](#), for more information.

C9.7.2.9.2. Foreign Military Financing Program. FMF is used to finance FMS through direct credits, either repayable (direct loan) or non-repayable (grant).

C9.7.2.9.2.1. Foreign Military Financing Funding Process.

C9.7.2.9.2.1.1. Congressional Budget Justification for Foreign Operations. In accordance with the [AECA, section 25 \(22 U.S.C. 2765\)](#), no later than February 1st of each year the President transmits to Congress, as part of the annual presentation of SA programs proposed for the next fiscal year, a report that provides an estimate of the aggregate dollar value and quantity of defense articles and services, military education and training, grant military assistance, and credits and guaranties to be furnished by the United States to each foreign country and international organization in the next fiscal year. DSCA annually consolidates input into the SA planning process. See [Chapter 14](#). An Executive Branch position is included in the Congressional Budget Justification (CBJ) recommending FMS credit programs for individual countries.

C9.7.2.9.2.1.2. Congressional Authorization and Appropriation. Upon receipt of the executive branch proposed position and the CBJ, Congress may conduct hearings on the SA program - to include FMF. When the authorization and appropriation acts are enacted, they include a dollar amount ceiling for FMF with some constraints, specified amounts, or special provisions.

C9.7.2.9.2.1.3. Determination of Foreign Military Financing Amount (Allocation). Within the legislatively mandated constraints in any fiscal year, State, with input from the DoD and the Department of Treasury, determines the grant amounts that individual countries shall receive. In this process, the pertinent economic, military, and political factors are considered. The President has delegated to the Secretary of Defense the authority to issue grants and loans to eligible recipients in accordance with the AECA. The Secretary of Defense has further delegated this authority to the Director, DSCA to be exercised in consultation with State and the Department of Treasury.

C9.7.2.9.2.1.4. Apportionment. Upon receipt of State program approval and apportionment request document, the OMB issues an apportionment document to DSCA. For FMF direct loans, the apportionment document provides DSCA with an apportionment of appropriated funds equal to the principal amount of the loan. FMF grant funds are obligated upon apportionment. FMF loan funds are obligated when the loan agreement with the borrower (purchaser) is signed.

C9.7.2.9.2.2. Implementation and Management of Foreign Military Financing Loans and Grants. Within DSCA, the Office of Business Operations (OBO) implements and manages loans and grants. DSCA (OBO) prepares the loan and grant agreements (see [Appendix 3](#)) and obtains signatures. Defense Finance and Accounting Service - Indianapolis (DFAS-IN) Security Cooperation Accounting (SCA) disburses loan and grant funds, bills the borrower, and collects payments.

C9.7.2.9.2.2.1. Commitment of Foreign Military Financing Funds.

C9.7.2.9.2.2.1.1. DSCA commits FMF funds to approved purchases. DSCA policy requires the FMF funds to be committed to loans and grants in their order of issuance. This encourages commitments within the normal expiration period of each loan/grant, reduces the volume of loan/grant records that must be maintained in an active status, and permits older loans/grants to be closed out.

C9.7.2.9.2.2.1.2. DSCA records commitments against a specific fiscal year loan, grant, or MAP-merger program. This information is maintained in DSCA records but does not appear on LOA documents.

C9.7.2.9.2.2.1.3. For new LOAs, DSCA immediately commits FMF (or MAP-merger funds) during the countersignature process. DSCA adjusts commitments as required based on Amendments or Modifications or case closures.

C9.7.2.9.2.3. Disbursement of Foreign Military Financing Loan Funds.

C9.7.2.9.2.3.1. General Policy. While DSCA records and maintains commitments of FMF funds by specific loan, this commitment by specific loan is used as a planning function and does not mean that the borrowing country must cite that specific loan when disbursement of funds is required.

C9.7.2.9.2.3.2. Expiration of Disbursement (Federal Financing Bank Loan Commitment) Period. Section 1.1 of FFB and DoD loan agreements (see [Appendix 3](#)) define the period through which funds may be disbursed under the loan. In the case of FFB loans, this is called the loan commitment period. The term "commitment period," in this context, means the period through which the FFB is committed to disburse loan funds. Loan funds remaining undisbursed after the expiration date are lost from the borrower's use.

C9.7.2.9.2.3.3. Requests for Disbursement of Loan Funds. All requests for disbursement of FMF funds must be submitted to DFAS-IN by the borrowing country in the letter format set forth in the applicable FMF agreement. Each request for disbursement of FMF funds for amounts due on FMS cases must indicate the FMS case designator(s) and the dollar amount(s) to be disbursed for each case. Procedures for requesting disbursements to commercial suppliers are discussed in [Section C9.7.3](#).

C9.7.2.9.3. Expenditure of Foreign Military Financing Funds. Transfers of FMF funds to the FMS Trust Fund account are expenditure transfers. Once transferred, FMF funds are expended and remain available indefinitely within the FMS Trust Fund for disbursements consistent with the purposes for which they were appropriated, obligated, and expended.

C9.7.2.9.4. Foreign Military Financing Loan Repayment Process.

C9.7.2.9.4.1. Interest Rates. All loans are repaid with interest unless Congress waives payment.

C9.7.2.9.4.1.1. Interest on Foreign Military Financing Direct Loans. Interest charged on direct loans is at a single fixed rate determined by the Department of Treasury. The rate is specified in the FMF loan agreement. Interest rates at less than the cost of money to the USG must be in the national interest and must be identified in enabling legislation.

C9.7.2.9.4.1.2. Interest on Department of Defense Guaranteed Loans Issued by the Federal Financing Bank. The issuance of FFB guarantee loans was discontinued in 1984; however, borrowing countries continue to repay the outstanding balance of those loans. Interest rates on FFB guaranteed loans are based on the cost of money to the USG. Fees shall be charged for guarantees.

C9.7.2.9.4.2. Repayment Period. The AECA requires that direct loans be repaid over a period not to exceed 12 years unless legislated otherwise by Congress. A 12-year limitation also applies to guaranteed loans except for countries specified by statute. Congress can authorize longer repayment terms for specific countries and authorize a grace period before requiring repayment of the principal. Semi-annual interest payments are required on the principal amount of loan funds disbursed during the grace period.

C9.7.2.9.4.3. Frequency and/or Timing of Payments. Repayments of FMF loans are made in semi-annual installments. Billing statements are sent by DFAS-IN to borrowing countries 30-45 days prior to payment due dates. Repayments on FMF loans are due on or before the dates specified in the promissory notes and are repeated in both the FFB and the DFAS-IN billing statements. Repayments falling due on a Saturday, Sunday, holiday, or other day on which the Federal Reserve Bank (FRB) of New York is not open for business, must be made on the first business day thereafter. This extension is used to compute interest for the affected payment, but is excluded from the next interest period.

C9.7.2.9.4.4. Late Repayments. If the borrower fails to make a repayment when due, the amount payable is the overdue installment of principal or interest, plus interest thereon, at the rate specified in the promissory note, from the due date to the actual payment date.

C9.7.2.9.4.5. Brooke Amendment. Repayments that continue in arrears for more than one year are subject to Brooke Amendment sanctions. The Brooke Amendment is an annual provision in the Foreign Operations, Export Financing, and Related Programs Appropriations Act, which states, "No part of any appropriation provided under titles III through VI in this Act shall be used to furnish assistance to the government of any country which is in default during a period in excess of one calendar year in payment to the United States of principal or interest on any loan made to the government of such country by the United States pursuant to a program for which funds are appropriated under this Act unless the President determines, following consultations with the Committees on Appropriations, that assistance for such country is in the national interest of the United States." This annual provision includes the FMF appropriation and so makes the Brooke Amendment applicable to FMS guaranteed loans made after 1980 subsidized with FMF. Brooke Amendment sanctions are activated by arrearages of more than one year on either United States Agency for International Development (USAID) loans, Export-Import Bank guaranteed loans, and direct guaranteed loans made under the AECA. Once invoked, the restrictions apply to most U.S.-funded foreign aid programs (economic and military). [Table C9.T9](#) summarizes activities that are affected by Brooke Sanctions.

Table C9.T9. Brooke Sanctions

Activities Not Permitted Under Brooke Sanctions

- New loan agreements or guaranties cannot be offered or issued.
- LOAs financed with FMF (FMS Credit) or MAP Merger funds that are accepted on or after the effective date of the sanction is not implemented.
- New or pending FMF or MAP Merger financed LOAs are not countersigned or issued to the country for acceptance.
- Direct commercial contracts that require new FMF funds are not approved.
- New International Military Education and Training (IMET) students may not travel to the U.S. or other locations to start training unless funds have already been obligated. Mobile Training Teams (MTTs) and Language Training Detachments (LTDs) will not commence unless funds have already been obligated.
- IMET students already in training before sanctions were enacted may continue with their training to include follow on training, but no additional sequential courses may be added on or after the effective date of the sanctions. MTTs or LTDs already funded may continue.
- IMET funded MTTs and LTDs may not be dispatched or extended beyond their scheduled termination date.
- IMET funded training aids may not be issued from supply nor placed on contract by the supplying agency.
- For countries that are in default of payment in excess of 1 calendar year, all grant Excess Defense Articles (EDA) transactions for the affected country are cancelled.

Activities Still Permitted Despite Brooke Sanctions

- Cash FMS purchases are not subject to these restrictions. Cash payments from national funds may be used to sustain existing FMS cases or fund new cases. It is preferred that a country under the Brooke Amendment use its available national funds to eliminate the arrearage rather than undertake new programs. If a purchaser uses national funds to finance a training case after Brooke Sanctions apply, full cost FMS pricing must apply to the entire case in accordance with [AECA, section 21\(a\)\(1\)\(C\), \(22 U.S.C. 2761\(a\)\(1\)\(C\)\)](#) provisions.
- Pipeline deliveries on materiel blanket open-ended cases implemented prior to the effective date of sanctions are allowed to continue regardless of term.
- Requisitions on materiel blanket open-ended cases may be processed.
- FMF financed cases accepted prior to effective date of sanctions remain in force and are executed. Modifications or Amendments to existing implemented FMS cases are not allowed if they involve new obligations of funds other than foreign country national funds.
- IMET or FMF-financed students whose course of study or training program has begun may complete such courses, including already funded sequential courses.
- Sales of EDA continue to be permitted under these sanctions.

C9.7.2.9.5. Defense Security Cooperation Agency Role as Guarantor of Federal Finance Bank Loans. DSCA pays (using the Guaranty Reserve Fund) overdue repayments on FFB (guaranteed) loans that remain unpaid 10 days after the payment due-date. The borrowing country is still obligated to repay the loan and interest continues to accrue on the overdue amount until the repayment is received from the borrowing country.

C9.7.2.9.6. Restrictions on the Use of Foreign Military Financing. Expenditure of FMF funds is subject to legal (see [Section C9.7.2.7.](#)) and policy restrictions. SCOs must ensure that the foreign Government is aware of U.S. policies for the use of FMF. SCOs should generally discourage partner nations from using FMF funding for those items identified in [Table C9.T10](#). However, in certain circumstances these items may be permitted to be purchased with FMF funds if State determines that providing such items is critical to the mission, the bilateral relationship, or the defense articles or services are in direct support of coalition operations where U.S. forces are present. SCOs should initiate an early discussion of requests to use FMF funds with DSCA (IOPS) and Department of State, Bureau of Political and Military Affairs (State (PM)). To facilitate review of these requests, SCOs should submit a detailed justification and rationale for purchasing each item with FMF funds rather than host-nation funds and any other relevant facts in support of the request. This guidance applies to FMF used for standard FMS cases and Direct Commercial Contracts (DCCs). The guidance does not affect DSCA management of FMF administrative accounts nor does it apply to packing, crating, and handling (PC&H) and transportation costs associated with equipment transferred to partner nations via the EDA program.

Table C9.T10. Generally Restricted Items for Purchase with Foreign Military Financing

Defense Articles and Services That Should Not be Purchased with Foreign Military Financing

- Petroleum, oil, lubricants, and fuel, other than for State-funded training events or related to the procurement and initial set-up of new equipment
- Resupply of small caliber ammunition (i.e., .50 caliber and below), other than for formal State-funded training events or initial acquisition with new weapons systems
- Food
- Office supplies
- Routine clothing/uniform items, other than those necessary for coalition or peacekeeping deployments
- Gym equipment (except for rehabilitation purposes)
- Care of animals
- Construction and refurbishment projects that are not integral to the provision of a broader package of military articles
- Headquarters support services, including janitorial services, academic research, personal computers, printers, and accessories; generic software and software maintenance
- Support for non-U.S.-origin equipment and systems
- National budget support, including salaries
- Lease of defense article
- Offsets

C9.7.3. Foreign Military Financing of Direct Commercial Contracts. DCCs are contracts where the purchaser enters into a contract directly with a vendor, and the USG is not a party to the contract. The AECA allows the ten countries justified in the Fiscal 1989 Congressional presentation to use their FMF allocation to finance DCCs. The ten countries eligible are: Israel, Egypt, Jordan, Morocco, Tunisia, the Republic of Turkey, Portugal, Pakistan, Yemen, and Greece. DSCA (IOPS/REX) DCC Manager approves DCCs to be financed with FMF on a case-by-case basis. For further details on the DCC process, contractor eligibility, types of items, and certifications required, see "Foreign Military Financing Of Direct Commercial Contracts" on the [DSCA webpage](#).

C9.8. - Letters Of Offer And Acceptance - Terms Of Sale

Terms of Sale indicate when payments are required and whether the sales agreement is financed with purchaser's national funds (cash), Foreign Military Sales (FMS) Credit (repayable or non-repayable), Military Assistance Program (MAP) Merger, or other funding. The Term of Sale is documented on the first page of the Letter of Offer and Acceptance (LOA). [Table C9.T11.](#) provides the Terms of Sale for use on LOAs. [Figure C5.F5.](#) provides a list of applicable Type of Assistance (TA) codes.

Table C9.T11. Terms of Sale

Term of Sale	Application
Cash with Acceptance	<ul style="list-style-type: none"> Used when the initial cash deposit equals the amount in the "Estimated Total Costs" line of the LOA. Used if the purchaser is not authorized Dependable Undertaking (DU), unless specific DSCA approval is obtained.
Cash with Acceptance/Balance as Billed	<ul style="list-style-type: none"> For Foreign Military Sales Order (FMSO) I and Worldwide Warehouse Redistribution Service (WWRS) stand-alone seller cases.
Cash Prior to Delivery	<ul style="list-style-type: none"> Used if the purchaser is authorized either DU, Credit Assured Payment Schedules (CAPS), or Risk Assessed Payment Schedules (RAPS) and the USG authorizes purchaser cash payment in advance of delivery of defense articles and rendering of defense services and design and construction services from DoD resources. <u>Arms Export Control Act (AECA), Sections 21(b), (22 U.S.C. 2761(b))</u> and <u>29 (22 U.S.C. 2769)</u> apply.
CAPS	<ul style="list-style-type: none"> Used as an alternative to the "Cash with Acceptance" standard term of sale through the provision of a Standby Letter of Credit (SBLC) that establishes a partner's eligibility for payment schedules. Used to guarantee payment schedules for a partner not authorized for DU or RAPS. May offer a lower initial deposit for partners who qualify for RAPS but seek to make an initial payment of 25 percent versus 50 percent. Approved by DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) on a case-by-case basis.
DU	<ul style="list-style-type: none"> Used if the purchaser is authorized in accordance with <u>AECA Section 22 (22 U.S.C. 2762)</u>.
RAPS	<ul style="list-style-type: none"> Approved by the DSCA Chief Financial Officer (CFO) on a case-by-case basis. Authorized in accordance with <u>AECA Section 22 (22 U.S.C. 2762)</u>. Used as an alternative to the "Cash with Acceptance" standard term of sale for partners that are ineligible for DU status. RAPS allows eligible partners to use payment schedules following an initial deposit of either maximum termination liability or 50 percent of Total Case Value (TCV). RAPS offers FMS partners on the cusp of DU eligibility a mechanism to establish a positive payment history for future LOAs, while mitigating risk to the USG against non-payment. DSCA will evaluate and grant the FMS partner's eligibility at the case-or-country-level with the existing three tier DU evaluation process.
Payment on Delivery	<ul style="list-style-type: none"> The USG issues bills to the purchaser at the time of delivery of defense articles or rendering of defense services from DoD resources. The first sentence of <u>AECA, section 21(d) (22 U.S.C. 2761(d))</u> applies. The Implementing Agency (IA) may use this term only pursuant to a written statutory determination by the Director, DSCA, who must find it in the national interest to do so. If <u>AECA, section 21(d)</u> is applicable based on Director or Deputy Director, DSCA action, modify to read "Payment 60 days after Delivery." If <u>AECA, section 21(d)</u> is applicable based on Presidential action, modify to read "Payment 120 days after Delivery."
FMS Credit	<ul style="list-style-type: none"> This term applies to an FMS case financed with repayable Foreign Military Financing (FMF) funds under <u>AECA, section 23 (22 U.S.C. 2763)</u> or under other legislation.
FMF Guarantee	<ul style="list-style-type: none"> This term applies to an FMS case where a partner secures a third-party loan and guaranteed by USG FMF funds under <u>AECA, section 24 (22 U.S.C. 2764)</u> or under other legislation.
MAP Merger	<ul style="list-style-type: none"> Applies to FMS cases financed with MAP Merger funds <u>Foreign Assistance Act (FAA), section 503 (22 U.S.C. 2311)</u>.
FMS Credit (Non-Repayable)	<ul style="list-style-type: none"> Applies to FMS cases financed with non-repayable FMF funds. If the case is financed wholly with these non-repayable funds, the LOA qualifies for pricing benefits (i.e., exclusion of military salaries and Nonrecurring Costs (NC) of research, development, and production of Major Defense Equipment (MDE)) as provided in <u>FAA, section 503(a)(3) (22 U.S.C. 2311(a)(3))</u> and <u>AECA, section 21(e) (22 U.S.C. 2761(e))</u>.
Excess Defense Articles (EDA) Grant	<ul style="list-style-type: none"> Applies to EDA - non-reimbursable grant transfers as provided in <u>FAA section 516 (22 U.S.C. 2321j)</u>.

C9.8.1. Terms of Sale Breakouts. If an LOA involves multiple terms, the IA cites all applicable terms on the LOA and includes a dollar breakout for each credit term used (it is acceptable to state "Balance" for the final term of sale shown on the LOA document). No attempt should be made to breakout the estimated costs of line items by Terms of Sale; the dollar breakout is shown only at the case level.

C9.8.2. Terms of Sale Revisions.

C9.8.2.1. Changes to Terms of Sale on LOA documents are generally made in accordance with the procedures for Pen and Ink changes, Modifications, and Amendments. See Chapter 5 and Chapter 6.

C9.8.2.2. The purchaser may choose to supplement available MAP Merger and/or FMF with its own national funds. If additional FMF and/or MAP Merger funds later become available, the purchaser may request DSCA approval to amend and/or modify the LOA to convert the cash portion of the case to FMF and/or MAP Merger.

C9.8.2.3. A purchaser may accept an LOA using its national funds as the method of payment and later determine available national funds are inadequate. The purchaser may request DSCA approval to use FMF and/or MAP Merger funds, if available, to finance the remaining payments. If approved, a Modification and/or Amendment is processed.

C9.8.2.4. Changes to Terms of Sale on Implemented Cases are Based on the Purchaser's (Someone who has Letter of Offer and Acceptance Signature Authority) Written Request. The DSCA (Office of Business Operations (OBO)) can initiate Terms of Sale revisions via message. For those cases containing a mixture of cash, FMF and/or MAP Merger, excess funds are determined by first releasing the cash portion, followed by FMF and lastly by MAP Merger. Exceptions as desired by the purchaser for a specific FMS case must be approved by DSCA (OBO).

C9.8.2.5. A change to an LOA's Term(s) of Sale from fully funded FMF and/or MAP Merger to mixed funding impacts the cost of the case. Any Amendment or Modification that reduces non-repayable FMF or MAP Merger funding below 100 percent requires repricing to add military pay, entitlements, and NC to the entire case. See [DoD 7000.14-R, Volume 15, Chapter 7](#), for more details.

C9.8.3. Dependable Undertaking Status.

C9.8.3.1. In accordance with [AECA Section 22\(a\) \(22 U.S.C. 2762\(a\)\)](#) and [Section 29 \(22 U.S.C. 2769\)](#), DU may be used as a term of sale for Procurement purchases. DU represents a firm commitment by the purchaser to pay the full amount of the contract, which assures the USG against any loss on the contract. The purchaser agrees to make funds available, in advance of financial requirements, as required by the official USG billing statement, to meet payments to contractors as well as any damages and costs that may accrue from cancellation.

C9.8.3.1.1. Authority. The DSCA Director is delegated authority for [AECA Section 22\(a\) \(22 U.S.C. 2762\(a\)\)](#) from the President of the United States through the Secretary of Defense by means of an Executive Order (EO) and DoD Directive (DoDD). The CFO will determine DU eligibility on a case-by-case basis for any FMS eligible country or organization that clearly demonstrates an ability and willingness to pay resulting in an assessed likelihood of timely payments.

C9.8.3.2. Eligibility. DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE)) will evaluate Partner eligibility using a Three Tier Evaluation process and provide decision recommendations to the DSCA CFO or DSCA Director as appropriate. DSCA (OBO/FPRE) will use the following primary factors to determine eligibility: the FMS Purchaser's Interagency Country Risk Assessment System (ICRAS) rating, FMS program and payment history, the value of the planned procurement, debt relief history, and any other pertinent factors. For countries and international organizations without an acceptable ICRAS rating, DSCA will determine eligibility using (1) a credit rating service (e.g. Moody's), (2) the DSCA DU Assessment Tool, (3) the country's FMS payment history, and/or (4) some combination of the preceding variables. A country with an acceptable ICRAS rating at the time of receipt of the Letter of Request (LOR) is presumed to be eligible to use the DU Term of Sale unless other factors override that eligibility determination. ICRAS ratings themselves are sensitive and are not releasable.

C9.8.3.3. Eligibility Review Process. Countries and International Organizations must be listed as AECA FMS eligible on [Table C4.T2A](#), to be considered for DU. A Three Tier Assessment Process is used to determine DU eligibility. The primary factor used to determine eligibility is the partner's ICRAS rating, which must provide an average or better likelihood of timely payments as required by the USG. An ICRAS rating below the acceptable threshold represents an increased likelihood of non-payment by the FMS partner which creates financial risk to the USG as non-payment could result in the requirement for a U.S. Taxpayer funded appropriation.

Table C9.T12. Eligibility Review Three Tier Assessment Process

Tiered Review	Interagency Country Risk Assessment System Rating	Description
Tier 1	Average or better likelihood of timely payments	<ul style="list-style-type: none"> • Yes/No based on ICRAS • Marks the point of reasonable assurance that the country will be able to resolve payment problems without resorting to a U.S. Taxpayer funded appropriation
Tier 2	Below Average likelihood of timely payments	<ul style="list-style-type: none"> • Failed to meet Tier 1 threshold • Considers additional weighted factors including International Monetary Fund reports, FMS program and payment experience, debt relief history, and Country Team Assessments • Generates a score from 1-9, with 9 being the highest • A score of 5 or higher is eligible for a positive recommendation • May allow for approval of DU for individual FMS cases only
Tier 3	Below Average likelihood of timely payments	<ul style="list-style-type: none"> • Failed to meet Tiers 1 and 2 thresholds • Evaluates past FMS program payment history (i.e. national funds; not grants) • Determines the average amount of annual sales paid from country's national funds • May allow for a small amount of DU to be approved for individual FMS cases only

C9.8.3.3.1. Dependable Undertaking is not a Blanket Authority. A country or international organization may not be offered the DU Term of Sale, even if it is presumed to be eligible, if other factors and circumstances indicate that another term of sale is advisable for a particular case. Information that may affect a country's or international organization's eligibility for the DU Term of Sale should be communicated to the DSCA CFO as soon as possible so that the eligibility determination may be reviewed.

C9.8.3.3.2. Grandfathered Dependable Undertaking. Allows Partners with ICRAS ratings that have fallen below the eligibility threshold to maintain DU eligibility so long as they are making payments as required and maintaining an active FMS program that demonstrates an ability to pay. Should a grandfathered Partner's program fall into a period of inactivity, then DU will be ceased. For this purpose, a period of inactivity means no record of national fund payments for seven consecutive years.

C9.8.3.3.2.1. Monitoring Grandfathered Status. DSCA (OBO/FPRE) will review and evaluate grandfathered countries and organizations every seven years to ensure the appropriateness of continuing the grandfathered DU status. DSCA (OBO/FPRE) will review the ICRAS rating changes over the course of the seven-year period and the DSCA (OBO/FPRE) Country Finance Director (CFD) will advise of any issues with timely payments. DSCA (OBO/FPRE) will consult with State on its recommendations for any DU status changes. The final recommendations will be sent to the DSCA CFO for a decision on whether it is appropriate to continue the grandfathered country or organization's DU status. The monitoring period ends December 31 every seventh year.

C9.8.3.3.3. Policy Exception. The FMS Partner, Security Cooperation Organization (SCO), DSCA (Office of International Operations (IOPS)) or IA may request an exception, in writing, to offer a particular case (or Amendment) with the DU Term of Sale to a country or international organization not otherwise eligible for DU. DSCA Director approval of an exception will be based on the results of a second-tier and third-tier structured analysis conducted by DSCA (OBO/FPRE). Factors such as previous FMS experience, background in Country Information Paper (CIP), Country Team Assessments (CTA), Combatant Commands ((CCMD)) endorsements for DU, and supporting documentation provided by the requesting organization will be consolidated by the DSCA (IOPS) and then evaluated by DSCA (OBO/FPRE) after all required documents are received. The DSCA Director will make the decision upon the review of the assessment. Exceptions granted apply only to the specific case or Amendment scope being evaluated and do not give the country or

international organization blanket eligibility for DU status. This written policy exception request must include coordination with Department of State, Bureau of Political-Military Affairs, Office of Regional Security and Arms Transfers (State (PM/RSAT)), and Department of State, Bureau of Political-Military Affairs, Office of Security Assistance (State (PM/SA)) if the potential exception involves the use of any U.S. grant assistance.

Table C9.T13. Documents Required For Final Exception Evaluation

#	Document Name	Remarks	OPR
1	LOR or other reliable statement of requirement	Identifies the item(s) being procured, quantity and budget requirements	FMS Purchaser
2	FMS Program History Form	Comprehensive Overview of FMS Program Financial History	DSCA (OBO/FPRE) CFD
3	Quarterly National Fund Payment History for last 5-7 years	Record of payments made from the FMS partner. Does not include FMF or any other source of funds	DSCA (OBO/FPRE) CFD and the Defense Finance and Accounting Services (DFAS)
4	CTA	Should address SCO's understanding of FMS Partner's ability to pay and budget for requirement	SCO
5	CCMD endorsement for DU	Should address CCMD's understanding of FMS Partner's ability to pay and budget for requirement	CCMD
6	DU Assessment Form	Weighted Assessment of Various Factors	DSCA (OBO/FPRE)

C9.8.3.3.4. Notification. DSCA (OBO/FPRE) will notify State of any changes being contemplated to a country's DU status.

C9.8.3.4. Roles and Responsibilities.

Table C9.T14. Dependable Undertaking Roles and Responsibilities

Who	Roles and Responsibilities
DSCA Director	<ul style="list-style-type: none"> Approves DU for Partners with ICRAS ratings that indicate an increased risk of non-payment.
DSCA CFO	<ul style="list-style-type: none"> Approves DU for Partners with ICRAS ratings that indicate a positive likelihood of timely payments Maintains list of DU eligible partners
DSCA (OBO/FPRE)	<ul style="list-style-type: none"> Prepares 2nd and 3rd Tier evaluations for FMS Partners that are considered to have an increased likelihood of non-payment Updates list of DU eligible partners on a quarterly basis, or as needed. Responds to general DU inquiries.
DSCA (OBO/FPRE) CFD	<ul style="list-style-type: none"> Supports DU evaluations by providing supporting financial data. Determines whether DU is an appropriate term of sale for each LOA. Responds to country specific DU inquiries.

C9.8.3.5. Oversight and Management. DSCA (OBO/FPRE) serves as the DoD representative to the ICRAS working group and will coordinate on DoD equities as related to FMS. DSCA (OBO/FPRE) CFD will advise DSCA (OBO/FPRE) when an FMS partner has recurring payment problems. DSCA (OBO/FPRE), its Regional Divisions and CFDs will maintain the working list of DU eligible FMS partners. DSCA (OBO/FPRE) will review and update the list quarterly and the final quarterly list will be provided to the DSCA CFO for approval by the Regional Division. When ICRAS rating changes impact an FMS partner's DU eligibility, such as an ICRAS increase, DSCA (OBO/FPRE) will advise the DSCA (OBO/FPRE) CFD of the rating change for the DSCA (OBO/FPRE) CFD's awareness and recommendation. If the ICRAS rating change impacts the FMS partner's eligibility for DU, then DSCA (OBO/FPRE) will inform the DSCA CFO prior to engaging State.

C9.8.3.6. Termination. In the event of incomplete and/or untimely payments resulting in abnormal account balances or an Anti-Deficiency like situation, the DSCA Director may revoke the DU status and request Cash with Acceptance on current and/or future LOA documents. If the FMS Partner is not able to support the financial requirements of the FMS case, the DSCA (OBO/FPRE) CFD will execute follow up actions as described in [DoD Financial Management Regulation \(DoD FMR\) Vol 16, Chapter 6, Section 060302E2](#). Should follow up actions not result in collection, the DSCA (OBO/FPRE) CFD will inform the DSCA CFO of the payment issue and provide Courses of Action (COAs) in accordance with the DoD FMR guidance above. The DSCA CFO will inform the Director of the situation and engage State's leadership. The DSCA (OBO/FPRE) CFD's efforts may include, but are not limited to, working with the appropriate offices in (DSCA (IOPS), the SCO, and State) to determine whether a program de-scope or shutdown are appropriate COAs for recommendation to DSCA CFO, and the necessary steps to rectify the situation (e.g. diplomatic channels, referral to Department of Justice (DoJ), etc.) In the event that there is no workable resolution to the payment problems, there may be a requirement to pursue a U.S. Taxpayer funded appropriation from Congress.

C9.8.4. Risk Assessed Payment Schedules. RAPS is a term of sale that provides approved FMS partners that are otherwise ineligible for DU status with an alternative to the "Cash with Acceptance" standard term of sale. RAPS offers FMS Partners on the cusp of DU eligibility a mechanism to establish a positive payment history for future LOAs, while mitigating risk to the USG against non-payment. DSCA will evaluate and grant the FMS Partner's eligibility at case or country level with the existing three tier DU evaluation process.

C9.8.4.1. Eligibility. DSCA (OBO/FPRE) will determine Partner eligibility using the established Three Tier Evaluation process. DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) will use the following primary factors to determine eligibility: the FMS Purchaser's ICRAS rating, FMS program and payment history, the value of the planned procurement, debt relief history, and any other pertinent factors.

C9.8.4.2. Eligibility Evaluation. The SCO, IA, or FMS Partner may submit an official request for an eligibility evaluation to the appropriate the DSCA (Office of International Operations, Regional Execution Directorate, (IOPS/REX) Regional Team lead or DSCA (IOPS/REX) Country Portfolio Director (CPD) and the DSCA (OBO/FPRE) CFD lead. The DSCA (OBO/FPRE) CFD will then forward the complete request with supporting documents to DSCA (OBO/FPRE) for review and evaluation. The DSCA (IOPS REX) CPD may originate the official request and submit the package directly to DSCA (OBO/FPRE). Each RAPS request needs to include many of the same documents required for a standard DU second and third tier assessment.

Table C9.T15. Documents Required For Final Evaluation

Number	Document Name	Remarks	OPR
1	FMS Program History Form	Comprehensive Overview of FMS Program Financial History	DSCA (OBO/FPRE) Regional Divisions
2	Quarterly National Fund Payment History for last 5-7 years	Record of payments made from the FMS partner. Does not include FMF or any other source of funds	DSCA (OBO/FPRE) Regional Divisions or DFAS
3	CTA	Should address SCO's understanding of FMS Partner's ability to pay and budget for requirement (See Table C5.T1.)	SCO
4	CCMD Endorsement for RAPS	Should address CCMD's understanding of FMS Partner's ability to pay and budget for requirement	CCMD
5	RAPS/DU Assessment Form	Weighted Assessment of Various Factors. (The assessment form is completed after all other documents listed above are received by DSCA (OBO/FPRE))	DSCA (OBO/FPRE)

C9.8.4.3. DSCA (OBO/FPRE) will conduct the evaluation, in coordination with the DSCA (IOPS), and will make a recommendation to the DSCA CFO for approval or non-approval.

C9.8.4.4. If approved by the DSCA CFO, the authorization memo will prescribe one of two available payment schedule formats.

C9.8.4.4.1. For FMS Partners that require minimal risk mitigation, the payment schedule will require an initial deposit, including 100 percent of the highest projected termination liability (TL) for the case, followed by quarterly payments required one year in advance of financial requirements.

C9.8.4.4.2. For FMS Partners that require a higher level of risk mitigation, the payment schedule will require an initial deposit of at least 50 percent of the TCV, which must be sufficient to also covers the 100 percent of the highest projected TL, followed by payments one year in advance of expected financial requirements.

C9.8.4.5. Monitoring. To ensure the FMS Partner meets its financial requirements, DFAS will notify the DSCA (OBO/FPRE) Regional Division each time a case payment is made under an approved RAPS by the FMS Partner. This is a positive reporting requirement that will ensure the FMS Purchaser is making full and timely payments.

C9.8.4.5.1. If DFAS and the DSCA (OBO/FPRE) Regional Division identify that payments are not being made as required, then the Regional Division will initiate dialogue with the SCO and FMS Partner in accordance with [DoD FMR, Vol 16, Chapter 6](#) on FMS Arrearages.

C9.8.4.6. Termination. In the event of incomplete or untimely payments, DSCA may revoke the RAPS status and request Cash with Acceptance on future LOA documents. If the FMS Purchaser is not able to support the financial requirements of the FMS case, then the DSCA (OBO/FPRE) Regional Division must work with the appropriate offices to determine whether a program de-scope or shutdown is appropriate and the necessary steps to rectify the situation (e.g. diplomatic channels, referral to Department of Justice, etc.)

C9.8.5. Credit Assured Payment Schedules. CAPS is a term of sale that provides approved FMS partners with an alternative to the "Cash with Acceptance" standard term of sale through the provision of a SBLC. The SBLC establishes a partner's eligibility for payment schedules. CAPS offers FMS partners a mechanism to establish a positive payment history for future LOAs and mitigates risk to the USG against non-payment while allowing partners to avoid paying for 100 percent of a FMS case upon LOA acceptance.

C9.8.5.1. Eligibility. DSCA (OBO/FPRE/FP) will determine FMS partner eligibility for CAPS by ensuring that a proposed bank is qualified to issue or confirm an SBLC in accordance with [Section C9.9.1.5.4.5.2.4.1.](#)

C9.8.5.2. Standby Letter of Credit - Credit Assured Payment Schedules. The value of the SBLC must be equal to or greater than the total uncollected value of all applicable implemented and proposed CAPS-related FMS LOAs, Modifications, and Amendments.

C9.8.5.2.1. Standby Letter of Credit - Credit Assured Payment Schedules Documents.

C9.8.5.2.1.1. Standby Letter of Credit. CAPS eligible FMS partners may obtain an SBLC issued by an eligible bank. The SBLC is a formal and independent undertaking issued by a bank to DSCA as the "beneficiary" of the SBLC, specifies the responsibilities of the bank and the FMS partner, and establishes the ability for DSCA to draw upon the value of the SBLC when the FMS partner does not make a timely payment. The SBLC, in effect, serves as the partner's guarantee of payment to DSCA in the event they fail to make timely quarterly payments on an FMS LOA in accordance with the DD 645.

C9.8.5.2.1.2. Memorandum of Understanding. The Memorandum of Understanding (MOU) governs the relationship between, and the responsibilities of, DSCA, the FMS partner, and the bank concerning the establishment, review, modification, drawing on, and termination of an SBLC. The MOU must be negotiated and signed prior to SBLC implementation.

C9.8.5.2.1.3. Demand for Payment (Drawdown). The demand for payment is a letter that DSCA would present to the bank to demand payments from the issuing/confirming financial institution for the amount required by the USG and may not exceed the amount of the SBLC.

C9.8.5.2.1.4. Standby Letter of Credit Status Report. The DSCA (OBO/FPRE) CFD will maintain, monitor, and track the issuance, activity, and processing of all SBLC documents.

C9.8.5.2.2. Roles and Responsibilities.

C9.8.5.2.2.1. Issuing Bank. Issuing bank responsibilities listed at [Section C9.9.1.5.4.4.3.](#)

C9.8.5.2.2.2. Confirming Bank. Confirming bank responsibilities listed at [Section C9.9.1.5.4.4.4.](#)

C9.8.5.2.2.3. Country Finance Director. The DSCA (OBO/FPRE) CFD shall coordinate the signing of a MOU between the FMS partner and DSCA. The DSCA (OBO/FPRE) CFD will work with the partner and the issuing bank to acquire a draft of the SBLC. The DSCA (OBO/FPRE) CFD is responsible for informing the SCO, IA and FMS partner of DSCA's (OBO/FPRE/FP) decision regarding the partner's CAPS approval, and ensures the term of sale on the LOA identifies CAPS and prompts DSCA (OBO/FPRE) CFD's LOA monitoring. The DSCA (OBO/FPRE) CFD will toggle the SBLC indicator on and enter the PAYAUTH milestone in Defense Security Assistance Management System (DSAMS) to facilitate the use of the CAPS term of sale. For FMS partner unique payment schedules, the DSCA (OBO/FPRE) CFD will communicate approval/denial to the IA and enter approval Case Remark in DSAMS. The DSCA (OBO/FPRE) CFD will monitor the SBLC value, the difference between the DD645 invoice and payment schedule, and the total uncollected value of the CAPS LOAs, Modifications, and Amendments. The DSCA (OBO/FPRE) CFD will monitor payments in the Monthly Case Report (MCR) and will work with both DFAS and the partner to determine the nature and causation of any late/missed payments. If a remedy has not been provided within 30 days, the DSCA (OBO/FPRE) CFD, with support from DFAS, will issue a demand letter against the SBLC for the quarterly payment.

C9.8.5.2.2.4. Financial Policy. DSCA (OBO/FPRE/FP) is responsible for vetting the issuing bank and the confirming bank, if applicable, to ensure they meet the criteria outlined in [Section C9.9.1.5.4.5.2.4.1.](#) Based on its findings, DSCA (OBO/FPRE/FP) will inform the DSCA (OBO/FPRE) CFD of its approval or disapproval of the FMS partner's CAPS request.

C9.8.5.2.2.5. Financial Reporting and Compliance. As CAPS LOAs are secured by an SBLC, DSCA (Office of Business Operations, Financial Policy and Regional Execution Directorate, Financial Analysis and Compliance Division (OBO/FPRE/FAC)) and the DSCA (OBO/FPRE) CFD will work together to ensure these LOAs are not included in the quarterly TL calculations.

C9.8.5.2.2.6. Implementing Agencies. The IA will communicate the request to use a unique payment schedule on the LOA checklist upon MILAP, and subsequently upload documentation into the Case Tracking System (CTS) for review and approval by the DSCA (Office of International Operations, Global Execution Directorate, Case Writing and Development Division (IOPS/GEX/CWD)) and DSCA (OBO/FPRE) CFD.

C9.8.5.3. Monitoring. The DSCA (OBO/FPRE) CFD will monitor collections in the MCR to ensure that the partner has made the required payments at the appropriate times. Should there be any issues with payments, the DSCA (OBO/FPRE) CFD will coordinate with DFAS to address concerns. This requirement ensures the FMS partner is making complete and timely payments.

C9.8.5.3.1. If DFAS and the DSCA (OBO/FPRE) CFD identify that payments are not made as required, the DSCA (OBO/FPRE) CFD will work with both DFAS and the FMS partner to determine the nature and causation of the late/missed payment. If a remedy has not been provided within 30 days, the DSCA (OBO/FPRE) CFD, in conjunction with DFAS, will issue a demand letter against the SBLC for the quarterly payment.

C9.8.5.4. Revocation. In the event of recurring incomplete or untimely payments, DSCA may revoke an FMS partner's CAPS status and require Cash with Acceptance on both current and future LOA documents.

C9.8.5.5. Termination. In all cases, the termination of an SBLC prior to its expiration date is subject to the written consent of DSCA.

C9.8.5.5.1. Termination due to Bank Eligibility. If either the issuing bank or confirming bank cease to satisfy the eligibility criteria while the SBLC is in effect, DSCA will notify the FMS partner that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the SBLC for the remaining amount of the SBLC, as applicable. Otherwise, DSCA will require another SBLC for the uncollected TCV amount to be issued by a bank that satisfies the eligibility criteria for the FMS partner to continue using the CAPS term of sale.

C9.8.5.5.2. Termination by Bank. Should the issuing bank announce its decision to revoke the SBLC, the FMS partner will be required to provide a new SBLC with another qualifying bank for the remaining uncollected TCV amount. If that is not provided, then the partner will be required to pay the remaining uncollected TCV amount as the term of sale would change to Cash with Acceptance.

C9.9. - Payment Schedules

Payment schedules provide forecasted financial requirements for a Foreign Military Sales (FMS) case and project the timing and/or amounts of purchaser deposits needed to meet the requirements. Payment schedules for Letter of Offer and Acceptance (LOA) documents are prepared by the DSCA (Office of International Operations, Global Execution Directorate, Case Writing and Development Division (IOPS/GEX/CWD)) during the case development process.

C9.9.1. Payment Schedule Preparation.

C9.9.1.1. Payment Schedule Requirement. Payment Schedules are only developed for cases if the country or international organizations is eligible for Dependable Undertaking (DU), unless the Term of Sale is "Cash With Acceptance." Countries and international organizations ineligible for DU are not authorized payment schedules and must use the "Cash With Acceptance" Term of Sale. No payment schedule is required for FMS cases financed with FMS Credit (Non-Repayable) and/or Military Assistance Program (MAP) Merger. The Implementing Agency (IA) may submit requests for policy exceptions to the DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE)) Regional Division. The following paragraphs provide criteria for developing payment schedules.

C9.9.1.2. Line Level. Payment schedules are built, using the Defense Security Assistance Management System (DSAMS), at the line level (or sub-line or delivery set level) and rolled-up to a case-level schedule.

C9.9.1.3. Information Needed to Prepare the Payment Schedule. The DSCA (IOPS/GEX/CWD) will use DSAMS to generate the payment schedule on the LOA. Payment schedules are prepared using pricing estimates and estimated dates for when purchasers will accept the LOA, the LOA will be implemented, requisitions will be initiated, contracts will be awarded, payments will be made to contractors, deliveries will occur, and personnel costs will be incurred. The IA will provide this information in DSAMS at the line level. DSCA (IOPS/GEX/CWD) will use DSAMS to prepare the payment schedule on the LOA based on

line-level data or unique payment schedule requirements. DSCA (OBO/FPRE) Regional Division must approve unique payment schedules and may request an IA level evaluation of unique payment schedule feasibility when necessary. See [Section C9.9.3.](#) for further guidance on purchaser requested payment schedules.

C9.9.1.4. Timing of Payments. Typically, the payment schedule projects quarterly payments due by the 15th day of March, June, September, and December. Exceptions to these dates must be approved by the DSCA (Office of Business Operations (OBO)). [Table C9.T16.](#) shows how payment schedule dates should be determined.

Table C9.T16. Payment Schedule Dates

Offer Expiration/Acceptance Dates of Letters of Offer and Acceptance	Earliest Payment Date on the Payment Schedule	For Period Covering
11 Sep – 10 Dec	15 Mar	Apr-Jun
11 Dec – 10 Mar	15 Jun	Jul-Sep
11 Mar – 10 Jun	15 Sep	Oct-Dec
11 Jun – 10 Sep	15 Dec	Jan-Mar

C9.9.1.5. Payment Distribution. Each deposit amount covers all costs to be incurred on the purchaser's behalf during the next quarter, plus a reserve to cover Termination Liability (TL) (for sales from procurement). Costs may include such items as anticipated deliveries of services and stock items, and progress payments on contracts.

C9.9.1.5.1. Initial Deposit. Each LOA includes an Initial Deposit to cover the Nonrecurring Costs (NCs) payment and outlays and/or deliveries anticipated until the first quarterly payment is received. The Term of Sale, type of case, projected date of delivery or performance of services, anticipated date of LOA acceptance, and source of supply impact the Initial Deposit. The purchaser forwards the Initial Deposit to Defense Finance and Accounting Services Indianapolis (DFAS-IN) by wire transfer (the preferred method of payment) or by check. The purchaser may use excess FMS Trust Fund Holding Account funds to pay the Initial Deposit. Amendments use the term "Due with Amendment Acceptance" vice Initial Deposit. The amount of the Initial Deposit is determined as shown in [Table C9.T17.](#)

Table C9.T17. Initial Deposit Requirements

Condition	Initial Deposit Amount
Delivery of the defense article or service is within 90 days of LOA acceptance. The Term of Sale is "Cash With Acceptance."	Full case value
Total performance is anticipated to be completed before DFAS-IN can bill and collect additional payments. The Term of Sale is "Cash With Acceptance."	Full case value
Cash sale when the purchaser is not authorized DU.	Full case value
Case is financed wholly with "FMS Credit (Non-Repayable)" or "MAP Merger", and Country is not authorized DU or cash flow financing.	Full case value
Case is partially funded by FMS Credit (Non-Repayable) and/or MAP Merger Funds, and not authorized DU or cash flow financing.	Full case value
Credit Assured Payment Schedules (CAPS)	Amount: 25 percent of the Total Case Value (TCV)
Delivery of the defense article or service is longer than 90 days after LOA acceptance.	Any Small Case Management Line (SCML) value; plus dollar value associated with performance until a quarterly payment can be made; plus 35 percent of the total FMS Administrative Surcharge. If the calculated FMS Administrative Surcharge value is \$30,000 or less, the entire FMS Administrative Surcharge value must be included in the initial deposit.
No performance scheduled on the case and no contractual actions occur during the period prior to the first quarterly payment.	Any SCML value; plus 35 percent of the total FMS Administrative Surcharge. If the calculated FMS Administrative Surcharge value is \$30,000 or less, the entire FMS Administrative Surcharge value must be included in the initial deposit.

When items are placed on contract before the first quarterly payment and no Standby Letter of Credit (SBLC) applies	Any SCML value; plus 35 percent of the total FMS Administrative Surcharge; plus that portion of TL required if the contract is terminated during the period covered by the Initial Deposit; plus contractor holdback. If the calculated FMS Administrative Surcharge value is \$30,000 or less, the entire FMS Administrative Surcharge value must be included in the initial deposit.
Risk Assessed Payment Schedules (RAPS)	For FMS Partners that require minimal risk mitigation, the payment schedule will require an initial deposit, includes 100 percent of the highest projected TL for the case. For FMS Partners that require a higher level of risk mitigation, the payment schedule will require an initial deposit of at least 50 percent of the TCV, which must be sufficient to also cover 100 percent of the highest projected TL.
Nonrecurring Costs (NCs)	5 percent collected on new requirements on/after 1 July 2025
The Term of Sale is "Cash with Acceptance – Balance as Billed"	WWRS: Five percent of the WWRS Services line value plus 35 percent of the calculated FMS administrative surcharge. If the calculated FMS Administrative Surcharge value is \$30,000 or less, the entire FMS Administrative Surcharge value must be included in the initial deposit. CLSSA FMSO I: 30 percent of the line value plus the Supply Support Arrangement Surcharge.

C9.9.1.5.2. Payment Schedule Curves. Payment schedule curves (most of which are in DSAMS) profile the expenditure patterns for types of cases and/or weapon systems. They are used to estimate how payments for each line should be distributed in the payment schedule. The IA may recommend adding new curves. The IA validates the need for a new curve and verifies how it should be constructed. After its review is complete, the IA sends the proposed new curve package to the DSCA (OBO/FPRE) Regional Division for review and approval.

C9.9.1.5.2.1. Materiel from Stock. Payment schedule distributions for materiel sold from stock are based on estimated deliveries during each 90-day period following the quarterly payment. Historical delivery information of specific generic codes and other materiel categories may be used. Payment schedules for stock materiel are only available to purchasers authorized DU or DSCA (OBO) specifically approved exception for purchasers not authorized DU.

C9.9.1.5.2.2. Materiel from Procurement. Payment schedule distributions for procured materiel requiring progress payments to contractors are based on progress payment schedules or historical cost curves. Payment schedules should include estimated disbursements to contractors, an appropriate contract hold-back percentage, and TL (if no SBLC exists that covers the amount of the case). See [Section C9.9.1.5.3.](#) and [Section C9.9.1.5.4.](#) on TL and SBLC, respectively.

C9.9.1.5.2.3. Concurrent Spare Parts. Payment schedule distributions for concurrent spare parts are based on estimated dollar deliveries consistent with the delivery of the supported end items.

C9.9.1.5.2.4. Purchaser-Initiated Requisitions. Payment schedule distributions for case lines involving purchaser-initiated requisitions are based on equal quarterly payments unless the USG is aware of a varying requisition activity schedule. See [Appendix 6](#) for exact note wording.

C9.9.1.5.2.5. Services. Payment schedule distributions for services are based on the scheduled performance dates and elements of cost of the provided services.

C9.9.1.5.2.6. Training. Payment schedule distributions for defined order training are based on estimated start date of the training courses. Payment schedule distributions for blanket order training require an Initial Deposit of 25 percent of the line when the case exceeds \$25,000. If no other information is available regarding course schedules, blanket order training payment schedules should reflect equal payments for the estimated period (just like any other blanket order case).

C9.9.1.5.2.7. Royalties or Non-Recurring Costs. Payment schedule distributions for royalties or Nonrecurring Costs (NCs) are based on production schedules of the applicable end item.

C9.9.1.5.2.8. Foreign Military Sales Administrative Surcharge and Accessorial Charges. Payment schedule distributions for the FMS Administrative Surcharge and accessorial costs are based on estimated delivery of the primary items or services. The Initial Deposit includes 35 percent of the FMS Administrative Surcharge. If the calculated FMS Administrative Surcharge value is \$30,000 or less, the entire FMS Administrative Surcharge value is included in the Initial Deposit. Any exceptions to this policy must be approved by DSCA (OBO/FPRE).

C9.9.1.5.3. Termination Liability. TL is the potential cost for which the USG would be liable if a particular FMS case is terminated prior to completion. It applies to any FMS case that has procurement contracts. Contractor termination schedules are used to calculate the TL that would apply for a specific FMS case. If these schedules are not available, the TL component of the payment schedule curve is used. If no other curve is available, the "DoD Standard Curve" shown in [DoD Financial Management Regulation \(DoD FMR\) 7000.14-R, Volume 15, Chapter 7](#), is used. A Termination Liability Worksheet (TLW) to show the amount of TL included in quarterly payments is prepared (using DSAMS). A TLW must be prepared whenever a case contains a Pricing Element Code (PEC) of "CC." TLWs are maintained in the case file (they are not submitted to DSCA when the case package is forwarded for electronic countersignature). If a specific case or line contains more than one PEC, pro-rate the "CC" component when computing the TL.

C9.9.1.5.3.1. Termination Liability Reserve Recordkeeping. All TL reserves in the FMS Trust Fund will be recorded in Financial Management Ledger (FML) account 1003. Account 1003 should only be used for TL reserves.

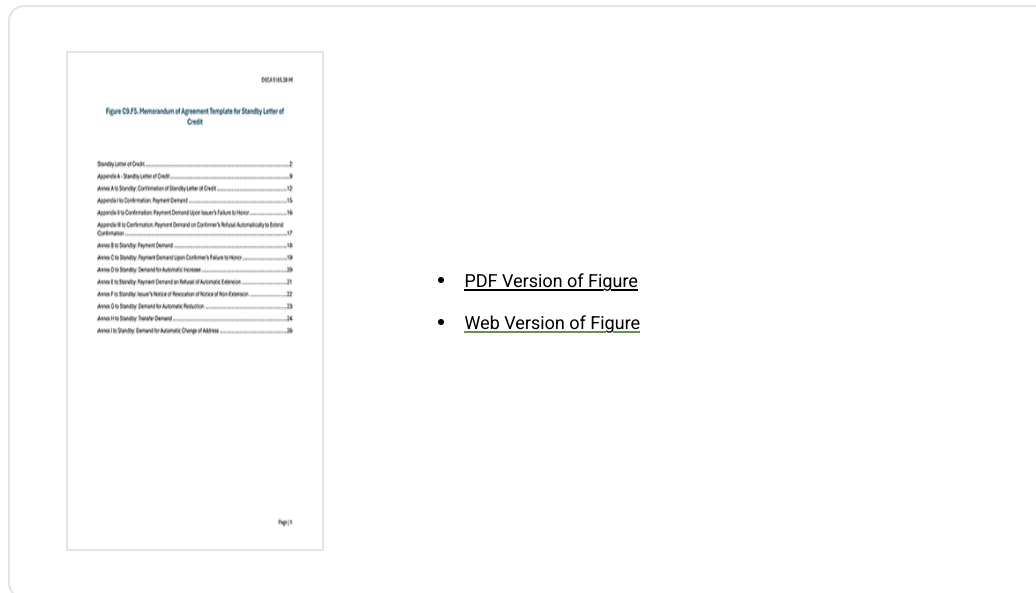
C9.9.1.5.4. Standby Letter of Credit. The [DoD FMR 7000.14-R, Volume 15, Chapter 4](#) authorizes the DSCA to approve an SBLC arrangement in lieu of TL prepayment requirements under an FMS program for DU-eligible foreign partners. Under the SBLC, the value of the Purchaser's TL is effectively guaranteed by a bank's letter of credit instead of TL prepayments the Purchaser makes into the FMS Trust Fund or Federal Reserve Bank. The SBLC covers all implemented FMS cases for which TL applies. An SBLC does not cover other financial requirements owed to the USG (i.e. working capital). Foreign partners in receipt of and utilizing Foreign Military Financing (FMF) grants are not eligible to participate in an SBLC in lieu of TL.

C9.9.1.5.4.1. Standby Letter of Credit Documents.

C9.9.1.5.4.1.1. Standby Letter of Credit. Eligible Purchasers may choose to use an SBLC issued by an eligible bank (see [Section C9.9.1.5.4.5.2.4.1.](#)) in lieu of TL prepayments. At the request of the Purchaser, the SBLC is a formal and independent undertaking issued by a bank to the DSCA as the "beneficiary" of the SBLC that specifies the duties of the bank and the rights of DSCA. The SBLC, in effect, serves as the bank's guarantee of payment to DSCA in the event of partial or full termination of an FMS case by the Purchaser or USG.

C9.9.1.5.4.1.2. Memorandum of Agreement. The Memorandum of Agreement (MOA) governs the relationship between and the obligations of DSCA and the Purchaser concerning the establishment, review, modification, drawing on, and termination of an SBLC. The MOA must be negotiated and signed prior to SBLC implementation.

Figure C9.F5. Memorandum of Agreement Template for Standby Letter of Credit



C9.9.1.5.4.1.3. Demand for Payment (Drawdown). The demand for payment is a document (in the form of an attachment to the SBLC) that would be presented by DSCA to the bank to demand payments from the issuing/confirming financial institution for the amount required by the USG, but not to exceed the amount of the SBLC.

C9.9.1.5.4.1.4. Standby Letter of Credit Status Report. DSCA (OBO/FPRE) will maintain, monitor and track the issuance, activity status, and processing of all SBLC documents. On a quarterly basis, the DSCA (OBO/FPRE) Regional Division will provide the DSCA Chief Financial Officer (CFO) a report providing a status of all SBLCs.

C9.9.1.5.4.2. Rules and Dispute Resolution. SBLCs for FMS shall provide by their terms that they are subject to the International Standby Practices (ISP 98), International Chamber of Commerce Publication No. 590, and shall be governed by the law of the State of New York and applicable U.S. Federal law. In addition, each SBLC shall contain a consent to the exclusive jurisdiction of the U.S. Federal courts located in the County and State of New York, United States of America, with respect to any disputes arising under the SBLC.

C9.9.1.5.4.3. Definitions. Unless specifically defined otherwise in the SBLC documents, the definitions for all terms stated therein are found in the ISP 98. For informational purposes, the following are key SBLC definitions derived from the ISP 98:

- "Beneficiary" is a named entity who is entitled to draw under a standby.
- "Issuer" means a bank that issues the standby letter of credit.
- Confirmer" is a bank nominated by the issuer to honor the issuer's standby.

C9.9.1.5.4.4. Roles and Responsibilities.

C9.9.1.5.4.4.1. Defense Security Cooperation Agency. DSCA is the beneficiary stated on the SBLC and is responsible for calculating quarterly TL for each FMS program. Therefore, DSCA ensures the SBLC amounts are sufficient to cover TL every fiscal quarter.

C9.9.1.5.4.4.1.1. Defense Security Cooperation Agency Director. The DSCA Director has overall responsibility for ensuring the successful implementation, execution and management of the SBLC program.

C9.9.1.5.4.4.1.2. Chief Financial Officer. The DSCA CFO provides leadership and policy guidance regarding the administration of the SBLC program. The DSCA CFO also signs all invitations for Purchasers to consider joining the SBLC program; approves or denies a SBLC application; and generally signs all SBLC documents on behalf of DSCA as the "beneficiary."

C9.9.1.5.4.4.1.3. Deputy Assistant Director, Financial Reporting and Regional Execution. The Deputy Assistant Director, (Deputy AD (OBO/FPRE)) is responsible for the day-to-day financial management of the FMS programs. The Deputy AD (OBO/FPRE) will direct the (OBO/FPRE) Regional Execution Division Chief to prepare all invitation letters; issue for release all SBLC documents, conduct negotiations and discussions with the Purchaser's representatives and participating bank officials; recommend to the DSCA CFO whether an SBLC application should be approved or rejected; coordinate each SBLC request with DSCA (Office of Business Operation, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)); notify DFAS and the IAs when SBLCs are implemented, and to include confirmation as to which FMS cases an SBLC pertains; maintain a tracking mechanism to reflect SBLC activity; resolve issues that arise; keep the DSCA Director and

DSCA CFO apprised of SBLC-related issues as appropriate; serve as USG contact for all SBLC related inquiries; and serve as overall coordinator for the SBLC program. The Deputy AD (OBO/FPRE) will also direct that the DSCA (OBO/FPRE/FP) Division Chief update SBLC policy as necessary and ensure each request adheres to SBLC policy.

C9.9.1.5.4.4.1.4. Office of the General Counsel. The DSCA (Front Office, Office of the General Counsel (FO/OGC)) will provide legal counsel and advice to the DSCA Director, DSCA CFO, and staff on all matters pertaining to SBLC, as appropriate. DSCA (FO/OGC) will review and coordinate on all SBLC documents, including revisions and amendments, to ensure legal sufficiency prior to a document's issuance to designated parties for review and acceptance. DSCA (FO/OGC) will articulate dispute resolution mechanisms. As appropriate, DSCA (FO/OGC) will coordinate with DoD General Counsel (DoD GC) (Fiscal).

C9.9.1.5.4.4.2. Defense Finance and Accounting Service. The Defense Finance and Accounting Service, Directorate for Security Cooperation Accounting (DFAS-SCA) is responsible for financial accounting of FMS Trust Fund transactions. With regard to SBLCs and Confirmations, DFAS-SCA will maintain copies of all demands for payment made by DSCA. If DSCA has not provided a copy of the Demand for Payment, DFAS-SCA will request a copy from DSCA to ensure sufficient supporting documentation exists for payments received in response to a demand for payment. When receiving a payment in response to a demand for payment, DFAS-SCA will record the deposit of funds from the issuing/confirming bank(s) to the Purchaser's Trust Fund general ledger account (GLA) 1009 in Defense Integrated Financial System (DIFS); which will correspondingly impact the DIFS GLA 1001 as well. DFAS-SCA will verify that the drawdown amount received matches the demand for payment and notify the DSCA (OBO/FPRE) Regional Division.

C9.9.1.5.4.4.3. Issuing Bank. Refer to the definition of "Issuer" and related rules contained in ISP 98 and Uniform Commercial Code Article 5. The effect of the SBLC is that the issuing bank has an independent and documentary obligation under the SBLC to pay DSCA, as beneficiary, against presentation of a complying demand for payment under the SBLC. Under whatever separate agreement(s) into which they choose to enter, the issuing bank and Purchaser will negotiate fees associated with the SBLC as well as any reimbursement or other underlying transactions required, which are separate and apart from the SBLC. Under no circumstances may articles delivered or services performed under the FMS program be used as collateral for securing arrangements associated with the SBLC. In the body of the SBLC, the issuing bank notifies DSCA as to the letter of credit number assigned to the specific SBLC.

C9.9.1.5.4.4.4. Confirming and Advising Banks.

C9.9.1.5.4.4.4.1. Confirming Bank. Refer to the definition of "Confirmer" and related rules contained in ISP 98 and Uniform Commercial Code Article 5. A confirming bank is necessary when an issuing bank alone will not suffice to meet DSCA's eligibility criteria to provide DSCA with adequate assurance of payment. (e.g. The issuing bank may not have the necessary credit rating, but the confirming bank may or the issuing bank may be located in a country that is not acceptable in terms of country risk. The confirming bank being located in the U.S. mitigates that risk). A confirming bank takes the issuing bank's promise under the SBLC and then under the Confirmation adds its own independent and documentary obligation under the Confirmation to pay DSCA, as beneficiary, against presentation of a complying demand for payment under the Confirmation. Under whatever separate agreement(s) into which they choose to enter, the confirming bank and the issuing bank, and possibly the Purchaser, will negotiate fees associated with the Confirmation as well as any reimbursement or other underlying transactions required, which are separate and apart from the Confirmation and the SBLC. Under no circumstances can articles delivered or services performed under the FMS program be used as collateral for securing arrangements associated with the Confirmation or the SBLC. In the body of the Confirmation, the confirming bank notifies DSCA as to the letter of credit number assigned to the specific Confirmation.

C9.9.1.5.4.4.4.2. Advising Bank. The advising bank will notify DSCA that a letter of credit has been opened on behalf of the Partner. The advising bank will authenticate and transfer the SBLC to DSCA as well as advise DSCA on the terms and conditions of the SBLC. The advising bank often serves as the confirming bank, but these roles may be filled by different financial institutions as well.

C9.9.1.5.4.4.5. Federal Reserve Bank, New York. The Federal Reserve Bank (FRB), New York manages interest-bearing accounts for the deposit of national funds from some Purchasers. Should an SBLC be in effect for a given Purchaser that owns an account at the FRB New York, the Purchaser may request DSCA approval to withdraw all or some of the account's funds which represent TL prepayments on or after the SBLC is implemented. In addition, the FRB New York account agreement can be amended to reflect the exclusion of TL as a component of "reserve funds" residing in that account, if appropriate. The FRB New York has no direct responsibility for the maintenance of any SBLC or Confirmation.

C9.9.1.5.4.4.6. Purchaser. The Purchaser may initiate a request to furnish an SBLC for FMS programs. All requests, either initiated unilaterally or in reply to a DSCA invitation, must be sent to the DSCA CFO in writing and signed by an official authorized to sign SBLC-related documents on behalf of the Purchaser's government/organization. The Purchaser is responsible for paying to the issuing bank or confirming bank any/all fees associated with the SBLC or Confirmation. No fees can be capitalized or subsumed into the dollar amount specified in the SBLC or Confirmation documents. The Purchaser must specify to DSCA the issuing and/or confirming bank(s) it wishes to issue the SBLC or Confirmation, as applicable, for the FMS program. The Purchaser is responsible for notifying DSCA in writing if and when it wishes to terminate its agreement with an issuing and/or confirming bank or arrange for a replacement SBLC or Confirmation. The Purchaser must sign an agreement with DSCA specifying the terms and conditions for an SBLC to be implemented to support the FMS program.

C9.9.1.5.4.4.7. Implementing Agency. Upon receiving notice from DSCA that an SBLC has been implemented for an FMS program, the IA will modify the payment schedule of the relevant cases to extract the TL component as a financial requirement owed to the USG. Likewise, should a given SBLC be terminated, the payment schedule may need to be revised to re-insert the TL component as appropriate. The IA will work with DSCA (OBO/FPRE) Country Finance Directors (CFDs) to establish a reasonable, but specific, timeframe to process the changes in TL status.

C9.9.1.5.4.5. Solicitation and Review.

C9.9.1.5.4.5.1. Standby Letter of Credit Secured Amount Determination. Prior to any formal solicitation for an SBLC, the DSCA (OBO/FPRE) CFDs in coordination with DSCA (OBO/FPRE/FP) will determine the required amount to be covered under the SBLC by calculating the TL requirements for the FMS cases associated with the SBLC and notify the Purchaser, accordingly. The Purchaser must request an SBLC for at least the amount calculated by the DSCA (OBO/FPRE) CFD and may also request a larger amount. This amount may be discussed with the Purchaser during the solicitation and review phases but is not subject to negotiation per se as it represents a valid contingent liability. DSCA will notify the Purchaser of the amount that must be covered by the SBLC based on the TL requirements. However, the Purchaser may, in its SBLC application, request an amount higher than DSCA's TL amount. The higher amount can be accommodated if executed via an accepted and implemented SBLC. DSCA will retain an audit trail specifying that the higher amount was due to the Purchaser's request.

C9.9.1.5.4.5.2. Solicitation.

C9.9.1.5.4.5.2.1. Defense Security Cooperation Agency Invitation. DSCA may, at its discretion, formally invite in writing a Purchaser to participate in an SBLC for its FMS program. DSCA will only offer an invitation to Purchasers who meet the eligibility criteria specified in [Section C9.9.1.5.4.5.2.2](#). The invitation letter shall specify the date by which a Purchaser must notify DSCA if it accepts the invitation, the amount of TL

reserves that must be covered by the SBLC, and include samples of the SBLC-related documents. If a purchaser accepts the invitation, it must provide DSCA the full legal name of the issuing and/or confirming bank proposed for consideration; verification as to the desired SBLC amount; requested changes, if any, to the SBLC-related documents; designation of authority signed by a Ministry-level representative; and the preferred timeframe during which the SBLC should be implemented. This information is considered the SBLC application and will only be reviewed for approval decision by the DSCA CFO when complete.

C9.9.1.5.4.5.2.2. Purchaser Initiation. Any Purchaser can initiate a request to participate in the SBLC for its FMS program. However, a request does not imply DSCA acceptance; please refer to [Section C9.9.1.5.4.5.2.3.](#) for eligibility requirements. The Purchaser's request must include the following, at a minimum: the full legal name of the issuing and/or confirming bank proposed for consideration; verification of the desired SBLC amount; designation of authority signed by a Ministry level representative; and preferred timeframe during which the SBLC should be implemented. While the Purchaser can submit its desired SBLC documents for DSCA review, those documents will be subject to revision based on any perceived variances from the formats prescribed in [Section C9.9.1.5.4.1.2. Memorandum of Agreement.](#)

C9.9.1.5.4.5.2.3. Eligibility Requirements for the Purchaser. Under any SBLC or Confirmation, the obligation to pay on presentation of a complying demand for payment rests with the issuing/confirming bank. The Purchaser remains liable to DSCA for its underlying obligations owed to DSCA but the balance the Purchaser owes will be reduced by any amounts paid by the issuing/confirming bank to DSCA under the SBLC or Confirmation. However, that does not remove the requirement for DSCA to conduct an assessment of the Purchaser's stability or other factors in order to determine whether an SBLC or Confirmation involving that Purchaser can be accommodated. One risk mitigation factor is the stability of all parties involved in the SBLC and Confirmation. If the Purchaser is deemed to have a higher level of instability, that in turn could equate to a higher perceived risk of termination events within the FMS program that could, consequently, result in a demand for payment being presented to the issuing and/or confirming bank(s). Among the factors that DSCA may use in assessing a purchaser's stability are: (1) its historical payment and termination track record with the FMS program, and (2) the Purchaser's rating as assessed by the USG's Interagency Country Risk Assessment System (ICRAS). ICRAS rating have widespread application within USG agencies for determining lending eligibility, credit extensions, etc. The DSCA Director has authority to review the variables involved in any particular SBLC arrangement (e.g., Country, FMS Case, Specific Dollar Amount, etc.) to ensure there is no unreasonable risk to the USG. Lastly, programs funded with FMF funds are not eligible to participate in this program.

C9.9.1.5.4.5.2.4. Eligibility Requirements for the Issuing and/or Confirming Bank(s). The obligation to pay under the SBLC or Confirmation, as applicable, rests with the bank(s). Extreme care shall be taken in terms of reviewing a bank's eligibility for participating in the SBLC program for FMS by ensuring the bank is in good standing prior to implementation and post implementation on a quarterly basis. This will be done by the DSCA (OBO/FPRE) CFD in accordance with [Section C9.9.1.5.4.22. Monitoring Requirements.](#)

C9.9.1.5.4.5.2.4.1. Eligibility Requirements for Issuing Bank. DSCA will consider financial institutions that meet the credit rating criteria outlined in [Table C9.T18.](#) and additionally meet the following criteria to serve as an Issuing Bank for an SBLC:

1. U.S. Bank federally chartered by the Comptroller of the Currency (OCC) that is in an "active" status as reported by OCC or,
2. U.S.-based foreign bank branch that holds an active federal charter from the OCC and meets DSCA evaluation criteria or,
3. New York State licensed, non-OCC regulated bank that meets DSCA evaluation criteria or,
4. Foreign banks that do not meet the requirements in 1 through 3 may request to issue an SBLC in conjunction with a U.S. Confirming bank that meets DSCA evaluation criteria.

C9.9.1.5.4.5.2.4.1.1. DSCA evaluation criteria determines a bank's eligibility using (1) the bank's credit rating (e.g., Moody's), (2) the bank's Common Equity Tier 1 (CET1), (3) the bank's Liquidity Coverage Ratio (LCR), (4) the bank's Asset Concentration, and (5) the FMS Purchaser's Interagency Country Risk Assessment System (ICRAS) rating. A bank with an acceptable evaluation will receive a notification that approves the lender's eligibility to issue an SBLC.

C9.9.1.5.4.5.2.4.2. Bank Credit Rating. Once bank status has been verified using the above requirements, DSCA will then confirm the bank's credit ratings to ensure they meet acceptable thresholds. In short, banks must be rated at a mid-tier investment grade or better. To ensure consistent application, DSCA plans to use the available investment ratings from the Moody's, Standard & Poor's, and/or Fitch, rating service as noted in [Table C9.T18.](#)

Table C9.T18. Acceptable Credit Ratings

Acceptable Rating*	Long-Term Rating	Short-Term Rating
Moody's – Counterparty Risk Assessment	Aaa(cr), Aa(cr), and A(cr)	P-1(cr) and P-2(cr)
Standard & Poor's – Issuer Credit Ratings	AAA, AA+, AA, A+, A, and A-	A-1, A-2, and A-3
Fitch – Issuer Default Ratings	AAA, AA+, AA, A+, A, and A-	F1+ and F1
*Note: When more than one rating agency provides a bank rating, DSCA may use the most recent rating to determine bank eligibility.		

C9.9.1.5.4.5.2.4.2.1. Use of long-term credit ratings is preferred to the use of short-term credit ratings. In addition to the bank rating criteria, the issuer and/or confirming bank must have an Outlook of Positive or Stable from the rating service(s). No exceptions for bank eligibility will be granted for banks that do not meet the standards outlined in [Section C9.9.1.5.4.5.2.4.](#) and its subparagraphs. If the issuing bank fails to

meet any of the criteria, DSCA will advise the Purchaser accordingly.

C9.9.1.5.4.5.2.4.3. Eligibility Requirements for the Confirming Bank. If the bank serving as the issuing bank meets the requirements in [Section C9.9.1.5.4.5.2.4.](#), and its subparagraphs, there will be no need for a confirming bank or a Confirmation. However, if the DSCA CFO determines it is in the best interest of the USG to secure additional credit support for the SBLC, then a confirming bank that is either a U.S. bank or U.S.-based foreign bank branch that meets all the criteria outlined in [Section C9.9.1.5.4.5.2.4.](#) and its subparagraphs shall be required to issue the Confirmation. If it is determined that the proposed confirming bank is unsuitable, then DSCA will advise the Purchaser that the proposed bank is not acceptable.

C9.9.1.5.4.6. Process Flow for Solicitation. The following events are shown in chronological order to depict the process pertaining to the SBLC:

1. DSCA determines SBLC amount based on the current and projected TL amounts;
2. DSCA issues an invitation letter; or Purchaser requests to participate;
3. DSCA receives Purchaser's reply to invitation;
4. DSCA determines whether Purchaser meets eligibility criteria; and
5. DSCA determines whether bank(s) meet(s) eligibility criteria.

C9.9.1.5.4.7. Notification of Standby Letter of Credit Application Decision. After reviewing the application based on requirements shown above in [Section C9.9.1.5.4.5.2.](#), DSCA will notify the Purchaser as to its approval/disapproval of the SBLC proposal. All approval/disapproval notifications must be in writing and signed by the DSCA CFO.

C9.9.1.5.4.7.1. Approval Notification. Approvals can be in the form of either approvals as provided (meaning there are no changes with the proposal contained in the SBLC application) or approvals as modified (meaning DSCA approves the package subject to required modifications). All required modifications must be clearly articulated in the notification letter. Note: DSCA will not unilaterally change the issuing and/or confirming bank(s) proposed by the Purchaser nor will it propose specific banks that might serve as suitable substitutes.

C9.9.1.5.4.7.2. Disapproval Notification. DSCA will notify the Purchaser if the package was disapproved, to include the specific reason(s) for not being able to accept the SBLC proposal. The disapproval notification will also state if there is a basis for approving the package if altered by the Purchaser (for example, proposing a different bank in order to meet acceptable eligibility thresholds).

C9.9.1.5.4.8. Acceptance Documentation. DSCA will inform the Purchaser in the approval letter that DSCA accepts the proposal (either as-is or as modified) and will send a copy of the letter via certified mail to the bank(s) at the address specified by the Purchaser. The approval letter will propose the specific date, time and location for the official acceptance of all SBLC and Confirmation documents, and will include a date by which the Purchaser and bank(s) are to confirm the date and time selected, the credit number(s) assigned by the bank(s), and insertion of text into the Terms and Conditions Agreement (for example, each bank's address/contact for presentation of a demand for payment and the Purchaser's designated authorities). Informal arrangements via telephonic or e-mail contact prior to the letter issuance are encouraged to expedite the acceptance process. The Purchaser and bank officials should reply to the DSCA (OBO) CFD not later than five (5) business days prior to the scheduled meeting time to reschedule or cancel that meeting. Appended to the DSCA letter will be the forms of SBLC and Confirmation (if applicable) reflecting any modifications made to the original version, and the Terms and Conditions agreement.

C9.9.1.5.4.9. Except as provided for in [Section C9.9.1.5.4.14.](#), the following officials are authorized to sign SBLC-related documents:

Table C9.T19. Standby Letter of Credit Authorized Officials

Organization	Authorizing Official
DSCA/USG (Beneficiary)	The DSCA Director, Deputy Director or DSCA CFO may sign SBLC-related documents. Further delegation is not authorized.
Purchaser	Designated by the Purchaser at Ministry-level. Ministry-level can also sign the Terms and Conditions Agreement and amendments without further designation. No formal acceptance may occur without submission of the designation of authority or if the designated official does not sign.
Issuing and/or Confirming Bank(s)	Left to the discretion of the issuing and/or confirming bank(s). DSCA reserves the rights to demand proof of designation authorization and deny acceptance until such documentation is received, reviewed and approved. Such documentation may include a certificate of incumbency, specimen signatures and/or a legal opinion of in-house or outside counsel to the bank. DSCA may also require the use of an acceptable U.S. advising bank.

C9.9.1.5.4.10. Documents Accepted. Formal acceptance occurs in the form of signatures affixed by designated officials on the following documents:

Table C9.T20. Formal Documents Accepted

Document	Number of Originals	Signatories
Original SBLC by the issuing bank	1	Bank official(s)
Original Confirmation by the confirming bank	1	Bank official(s)
Terms and Conditions Agreement	2	DSCA and the Purchaser

C9.9.1.5.4.11. Acceptance Document Repositories. The document repositories for Purchaser and bank(s) are at the discretion of those parties. Repositories for the USG are:

Table C9.T21. USG Repositories

Document	Responsible Office
SBLC (original)	DSCA (OBO/FPRE/FP)
SBLC (copies)	DSCA (OBO/FPRE) CFD and DSCA (FO/OGC)
Confirmation (original)	DSCA (OBO/FPRE/FP)
Confirmation (copies)	DSCA (OBO/FPRE) CFD and DSCA (FO/OGC)
Terms/Conditions Agreement (original)	DSCA (OBO/FPRE/FP)
Terms/Conditions Agreement (copies)	DSCA (OBO/FPRE) CFD and DSCA (FO/OGC)

C9.9.1.5.4.12. Process Flow for Acceptance. The following events are shown in chronological order to depict the process flow for acceptance of an SBLC:

1. DSCA decides whether to approve the SBLC application;
2. If disapproved, DSCA will send a letter explaining why the package was rejected and what could be revised to make the package acceptable;
3. If approved, DSCA will send a letter to that effect; modifications made to the original package will be specified;
4. DSCA will call or e-mail Purchaser and bank officials to arrange for SBLC acceptance and, if applicable, Confirmation acceptance;
5. DSCA will send a letter confirming the informal meeting arrangements;
6. The Terms and Conditions Agreement (i.e. the MOU) will be signed by authorized officials;
7. The FMS Partner will furnish DSCA with the SBLC and, if applicable, Confirmation; and
8. DSCA will store original documents and copies thereof in designated locations.

C9.9.1.5.4.13. Implementation Criteria. The SBLC is binding when issued. Likewise, the Confirmation is binding when issued. The Terms and Conditions Agreement is considered to be implemented when all parties signed all copies of the documents and the corresponding SBLC and, if applicable, Confirmation is issued (with DSCA having received whatever proof of authorization it has requested in respect of such undertakings). At this stage, the process shall commence to notify applicable USG IAs as to implementation and next steps required for existing and new LOAs.

C9.9.1.5.4.14. Implementation Notification. Upon SBLC implementation, DSCA will engage specific organizations as follows:

Table C9.T22. Defense Security Cooperation Agency Engagement

Organization	Notification
IAs	DSCA (OBO/FPRE) CFD will send an official email that provides the SBLC implementation date; confirms the extent of TL coverage under the SBLC and, if applicable, Confirmation; and provides either a list of affected cases (or makes general reference to all cases to which TL applies). The email will also specify actions to be performed in terms of ensuring proper format of payment schedules on affected cases.
DFAS	DSCA (OBO/FPRE) CFD will send an official email that conveys the requirement to modify the means by which DFAS captures the payment schedule amounts into its DIFS system. Additionally, DSCA (OBO/FPRE) CFD will notify DFAS of any changes that impact TL held in the FMS Trust Fund or the FRB resulting from SBLC changes.
Purchaser	DSCA (OBO/FPRE) Regional Division will send a letter that confirms implementation details of the SBLC-related documents.

C9.9.1.5.4.15. Implementation Process Flow. The following events are shown in chronological order to depict the Implementation phase process flow:

1. All authorized parties sign all copies of the documents presented during the formal acceptance session;
2. DSCA sends an email to the IAs specifying applicable actions;
3. DSCA sends an email to DFAS specifying applicable actions; and
4. DSCA sends a letter to the Purchaser confirming implementation details.

C9.9.1.5.4.16. Drawdown Process. This Section describes certain actions and requirements relating to demands for payment under the SBLC or Confirmation.

C9.9.1.5.4.17. Events Prompting a Drawdown. A demand for payment under the SBLC or Confirmation may be completed by DSCA (OBO/FPRE) Regional Division and signed by the DSCA CFO after coordination with the DSCA Director or Deputy Director. The SBLC and Confirmation should each attach a form of demand to be used. DSCA may issue a demand for payment if any one or more of the following situations occur:

- The Purchaser notifies the USG, in writing, that it is terminating all or a portion of any FMS case;
- The USG notifies the Purchaser, in writing, that it is terminating an FMS case(s) or contracts relating to an FMS case;
- The USG is aware the SBLC or Confirmation is being either terminated or not extended beyond its then current expiration date;
- A contractor presents a bill to the USG for termination charges associated with an FMS case(s);
- The Purchaser does not maintain its DU eligibility;
- The issuing and/or confirming bank falls below DSCA's acceptable eligibility thresholds; or,
- The Purchaser fails to complete all actions to implement any election to increase the amount of the SBLC or Confirmation; or the issuing bank denies the request to increase the credit.

C9.9.1.5.4.17.1. The demand for payment may demand the entire amount of the SBLC or Confirmation (including any automatic amendment of up to 10 percent over the original amount when issued) or a portion of the amount. Multiple drawings, on either the same date or on separate dates, can also be made, provided those drawings taken together do not exceed the entire amount of the SBLC or Confirmation (including any automatic amendment(s) of up to 10 percent of the original amount when issued).

C9.9.1.5.4.18. Presentation. As a courtesy, DSCA will provide the Purchaser with a copy of any demand for payment presented by DSCA to the issuing bank or confirming bank. The presentation shall be made, at DSCA's option, by any of the methods specified in the SBLC or Confirmation, as applicable. No documentation other than the demand for payment shall be required for presentation to the applicable bank in order for that presentation to be complete. Under the terms of the SBLC or Confirmation, the bank cannot dishonor payment by demanding that additional documents be furnished by the DSCA.

C9.9.1.5.4.19. Sight Draft/Drawdown Honor. The terms of the SBLC and Confirmation (and, in the absence of specific terms, clauses or provisions in either of those documents, the ISP 98) govern the time frame by which a demand for payment must be honored.

C9.9.1.5.4.20. Application of Payment Received. The demand for payment shall specify the account into which the payment shall be remitted. Upon receipt, Defense Finance and Accounting Service (DFAS) will ensure the payment is properly credited to the applicable FMS case(s). DFAS will notify DSCA (OBO/FPRE) Regional Division via e-mail as to the date deposited and FMS case(s) credited within three business days of payment receipt. DSCA (OBO/FPRE) Regional Division will acknowledge to DFAS via e-mail within one business day thereafter its receipt of the DFAS advice and confirm that it approves the payment application.

C9.9.1.5.4.21. Impact of Honor on Standby Letter of Credit or Confirmation Amount. To the extent DSCA has received payment of a demand for payment under an SBLC or Confirmation, such amount is deducted from the amount of the SBLC or Confirmation remaining for future payment. A bank's obligation under an SBLC for a given Purchaser is finite in nature. For example, if the SBLC amount is \$100M and a payment of \$42M is made to DSCA, only \$58M is available for subsequent drawings. An exception to this is if the SBLC amount is restored to \$100M (or some other amount) via an amendment.

C9.9.1.5.4.22. Monitoring Requirements. DSCA (OBO/FPRE) Regional Division will monitor the status of each SBLC and Confirmation for FMS on a basis not less than quarterly. This includes processes as noted in the following sections.

C9.9.1.5.4.22.1. Validating Termination Liability Requirements. Each quarter, DSCA (OBO/FPRE/FP) will, in coordination with the DSCA (OBO/FPRE) CFD, determine whether the amount specified in the SBLC remains adequate to cover TL requirements for the portion of the Purchaser's FMS program covered by the SBLC. This is in recognition of the dynamic nature of FMS programs. For example, during the period in which a given SBLC is active, many FMS cases may be implemented, many may close and many may continue to be executed - all of which may impact the corpus-level TL requirement.

C9.9.1.5.4.22.2. Tracking Mechanism. Each quarter, DSCA (OBO/FPRE) and its Regional Divisions will submit to the DSCA CFO a report to identify SBLC/Confirmation activity/status. On an annual basis (by 31 October for the fiscal year-end), a consolidated report will be forwarded from DSCA (OBO/FPRE) to the DSCA Director. The annual report will include overall assessments and a recommendation as to any changes in the overarching SBLC policy that may be required to more effectively execute this program.

C9.9.1.5.4.23. Amendments. It is recognized that changes to any given SBLC or Confirmation while it is outstanding may be necessary. These changes could be prompted by the DSCA assessment that the amount should be adjusted, the Purchaser's and/or issuing or confirming bank's request for the same, changes in law, and changes in any terms and conditions acceptable to all parties. Regardless of the reason, all amendments must be

approved by DSCA before they are accepted and implemented. This Section addresses the mechanics by which amendments will occur.

C9.9.1.5.4.23.1. Automatic Adjustment. The form of SBLC and Confirmation allows for one or more automatic amendments to the original amount for an aggregate amount not to exceed 10 percent over the dollar amount specified therein as originally issued. DSCA will send the request for amendment up to 110 percent of the original amount to the bank with copy to the Purchaser. The amendment shall take effect upon DSCA's notice to the bank (in the form prescribed in the SBLC or Confirmation, as applicable).

C9.9.1.5.4.23.2. Standby Letter of Credit Secured Amount Adjustment.

C9.9.1.5.4.23.2.1. Increases. If the amount of the SBLC or Confirmation currently in effect needs to be increased beyond the 110 percent threshold, a non-automatic amendment would need to be processed. In that event, DSCA will notify the Purchaser in writing that an increase is necessary and will allow the Purchaser 10 business days to reply as to whether the Purchaser prefers that the SBLC and Confirmation amounts be increased via an amendment or if the Purchaser wishes to deposit the required TL increment. If the Purchaser replies that an amendment should be processed, the Purchaser will submit in writing a notice to the issuing bank and/or confirming bank, with a copy to the DSCA. In that notice, the Purchaser will request the bank reply within 15 business days. The bank's reply to the Purchaser and DSCA should either: (1) provide a formal amendment that indicates the bank's willingness to raise the amount per the request; or (2) provide notice to Purchaser and DSCA that the requested increase to the amount will not be accommodated by the bank. In the event of scenario (1), the amendment will be accepted. In the event of scenario (2) or if no reply from the bank is received within 15 business days, the Purchaser will notify the DSCA and the increased adjustment will be captured in the Purchaser's official billing statement from the next quarterly bill, until/unless a separate SBLC and Confirmation with a different bank for the increment is obtained. If the Purchaser does not pay the TL amount owed by the bill's due date, then DSCA may sequester funds in the FMS Trust Fund to reserve the full TL amount.

C9.9.1.5.4.23.2.2. Decreases. If the TL validation performed in [Section C9.9.1.5.4.22.1](#), above reveals that a decrease to the amount of the SBLC and Confirmation is warranted (e.g., the computed TL is more than 10 percent under the SBLC amount for two consecutive quarters), DSCA shall notify the Purchaser in writing. The Purchaser then has the option to either approve a decrease to the SBLC and Confirmation or leave the amount unchanged. The Purchaser's response must be addressed to the DSCA CFO in writing. If no reply is received by DSCA within 30 calendar days of the date of DSCA's written notice to the Purchaser, DSCA shall not send the request for decrease to the issuing or confirming bank. If the Purchaser approves the decrease, DSCA will implement the reduction in accordance with the procedures outlined in the SBLC or Confirmation, as applicable.

C9.9.1.5.4.23.3. Expiration Date Extension. The form of SBLC provides that the SBLC shall remain valid until a specific expiration date as stated therein. The SBLC further provides for an automatic amendment extending it each year by one calendar year, unless notice of non-extension is given to DSCA in accordance with the Memorandum of Agreement's specified number of days in advance of the then current expiration date. The form of Confirmation contains a similar expiration date and automatic extension provision.

C9.9.1.5.4.23.4. Other Amendments. Amendments of a nature other than those described above must be approved in writing by DSCA. Such requests, to include those initiated by DSCA, must be reviewed on their own merits before a proposal to arrange for acceptance and implementation is made.

C9.9.1.5.4.24. Impact on Letter of Offer and Acceptance Payment Schedules. TL applies for purchases of defense articles and defense services made pursuant to Section 21 of the Arms Export Control Act (AECA). In the event no SBLC exists, TL prepayments are made as part of the financial requirements owed to the DSCA on each applicable FMS case. With an issued SBLC, TL requirements can instead be satisfied by the SBLC. The SBLC therefore impacts the USG's financial requirements. Accordingly, the FMS case payment schedules must be adjusted to identify the revised amount owed to the DSCA (which equals the advance collection of funds needed to cover anticipated disbursements). Upon SBLC implementation, DSCA will notify the IAs in accordance with [Section C9.9.1.5.4.12](#). For affected FMS cases, the IAs will ensure the LOA payment schedules reflect the following format:

	(1)	(2)	[(1)-(2)]
Quarterly Payment	Total Requirements	Termination Liability	USG Financial Requirements

C9.9.1.5.4.24.1. Upon receiving the LOA documents reflecting the above payment schedule format and amounts, DFAS will load the "USG Financial Requirements" figures into DIFS. This will replace the "total requirements" figures currently shown in DIFS and, consequently, revise future financial forecasts and individual quarterly amounts due.

C9.9.1.5.4.25. Process Flow for Execution/Monitoring/Adjustments. The following events are shown in chronological order to depict the process flow pertaining to Execution, Monitoring and Adjustments:

- DSCA will monitor the TL requirements not less than quarterly;
- DSCA (OBO/FPRE) Regional Division will send quarterly reports to the DSCA CFO and DSCA (OBO/FPRE) will send annual reports to the DSCA Director on SBLC and Confirmation activity/status;
- Increases to SBLC value after:
 - DSCA notifies the Bank and Purchaser that an automatic 10 percent increase to the SBLC or Confirmation original amount is needed; or
 - DSCA notifies the Purchaser that an increase of more than 10 percent is needed.
 - Should an increase of more than 110 percent of the SBLC or Confirmation original amount not be accommodated by the Purchaser or bank(s), DSCA will:
 1. Bill the Purchaser for the TL requirement not covered by the SBLC until such time as a separate SBLC and, if necessary, Confirmation for the increment is

implemented; or

2. Sequester funds in the FMS Trust Fund to reserve the required TL amount.

- If the bank(s) approve any increase, then they will issue an SBLC and/or Confirmation amendment reflecting the new amount. This documentation will be provided to DSCA and the Purchaser.
- If a decrease to the amount is warranted, DSCA will give the Purchaser the option to either request an amount reduction or leave the amount unchanged;
- All amendments and implementations are performed in accordance with processes described above and the terms of the applicable SBLC or Confirmation;
- IAs must reflect payment schedules as directed by DSCA and in a prescribed format; and
- DFAS must reflect the amounts shown in DIFS based on its receipt of LOA documents from IAs.

C9.9.1.5.4.26. Transfer Provisions. The SBLC and Confirmation specifies the means by which DSCA can transfer its rights as the beneficiary. Only DSCA has the right to demand transfer of its rights under the SBLC or Confirmation; absent consent by DSCA, neither the issuing or confirming bank nor the Purchaser has authority to transfer the SBLC or Confirmation.

C9.9.1.5.4.27. Termination Provisions.

C9.9.1.5.4.27.1. Termination of an SBLC or Confirmation prior to its expiration date is subject to the written consent of DSCA. Consent to termination will normally result in DSCA either (1) issuing a demand for payment for the remaining TL covered by the SBLC and Confirmation prior to their termination, or (2) billing the Purchaser for that liability amount via an official billing statement prior to their termination. In the event of scenario (2) above, DSCA's official billing statement will require payment from the purchaser within 30 business days of the request and the TL payment must be completed prior to termination of the SBLC.

C9.9.1.5.4.27.2. If either the issuing or confirming bank ceases to satisfy the eligibility criteria of the DSCA while the SBLC or Confirmation is in effect, DSCA will notify the Purchaser that such bank no longer satisfies DSCA's requirements. DSCA may draw on the SBLC or Confirmation for the remaining amount of the SBLC or Confirmation, as applicable. DSCA may require another SBLC and Confirmation for the remaining TL amount to be issued by a bank that satisfies the eligibility criteria. Alternatively, DSCA will notify the Purchaser that TL prepayments in the amount covered by the SBLC and Confirmation (without duplication) must be paid within 30 business days of official notice.

C9.9.1.5.4.27.3. The Purchaser must maintain DU eligibility in order to be eligible to keep an implemented SBLC. If DU is revoked, the Purchaser will be notified of the status revocation, and upon this notification DSCA will drawdown the required TL amount from the SBLC or Confirmation prior to final termination of the SBLC and/or Confirmation.

C9.9.1.5.4.28. Closeout. Closeout of an SBLC and Confirmation can be prompted by its termination or expiration without extension. Within 30 days after either date (whichever occurs earlier), the bank(s) will be requested to submit to the DSCA CFO and to the authorized Purchaser official a written notice that confirms the SBLC and Confirmation were closed and that the bank(s) is no longer carrying this contingent liability on its books. Within fifteen days after receiving the bank's notice, DSCA will send written confirmation to the Purchaser and the bank(s) that it has also closed the SBLC and Confirmation on its records. Written confirmation to the Purchaser will also include information on how future TL requirements will be billed until/unless a new SBLC is implemented. DSCA will notify DFAS and the IAs that the SBLC and Confirmation were closed and instruct (a) the IAs as to consequent payment schedule methodology and (b) DFAS as to the revised billing process. If DSCA executes a demand for payment that does not cover the entire TL amount required, the Purchaser will have 30 business days to ensure TL is fully paid as requested by DSCA.

C9.9.1.5.4.28.1. If the Purchaser requests that the SBLC not be extended, not later than 30 business days prior to the expiration date the Purchaser may request that DSCA either: (1) draw the entire TL amount from the SBLC or Confirmation or (2) make available funds for the TL prepayment amount for deposit into its FMS Trust Fund account. If the amount available under the SBLC or Confirmation is not sufficient to cover all TL funds required at the time of SBLC or Confirmation expiration, the Purchaser would be responsible for depositing that uncovered amount not less than 30 days prior to the expiration date.

C9.9.2. Purchaser-Requested Schedules. The purchaser eligible for DU may request a specific payment schedule for a given case. This schedule may be based on its internal budget allocation, other constraints, or a desire to accelerate payments.

C9.9.2.1. Purchaser requests for specific payment schedules are reviewed by the IA prior to submission of the LOA package to DSCA (IOPS/GEX/CWD) for case preparation. A copy of the purchaser's request is included in the case preparation request. The IA will approve the schedule as part of the LOA document coordination/countersignature process.

C9.9.2.2. DSCA (IOPS/GEX/CWD) constructs the standard payment schedule (to include any contract termination costs) and compares it to the purchaser's requested schedule. DSCA (IOPS/GEX/CWD) analyzes the purchaser's proposed schedule to determine if it provides sufficient funds to meet projected requirements identified on the standard payment schedule. If the purchaser's requested schedule is sufficient to cover the USG's forecasted requirements, DSCA (IOPS/GEX/CWD) will proceed with the request. If DSCA (IOPS/GEX/CWD) determines that the purchaser's requested schedule will not meet forecasted requirements, DSCA (IOPS/GEX/CWD) will notify the IA (with an information copy to DSCA (OBO/FPRE) CFD and return the case document to the IA for further action. The IA may consult with DSCA (OBO/FPRE) CFD to deny the purchaser's request or may work with the purchaser to redefine the requirements. Part of the payment schedule comparison and analysis includes developing the TLW. The TLW is first based on the USG-developed payment schedule (to include contractor termination costs); it should then be recalculated using the purchaser-requested schedule, if approved.

C9.9.2.3. When a purchaser-requested schedule is approved and used on the LOA, a note is included beneath the payment schedule. See [Appendix 6](#) for exact note wording. The USG-developed standard payment schedule does not appear on the LOA but is maintained in the case file and in DSAMS.

C9.9.3. Payment Schedule Revisions. Payment schedule updates are necessary to reflect revisions to delivery schedules, scope changes, pricing updates, actual contract award dates, contractor payment milestone revisions, etc. IAs will review payment schedules during the annual case review process to determine if any updates are required. Additionally, IAs will update the payment schedules on LOAs that require Congressional Notification when the primary contract for procurement lines has been awarded. On a quarterly basis, The DSCA (OBO/FPRE) Regional Division will provide the IAs with a list of the cases for which DSCA recommends updating the payment schedule to reduce early collections. The IA will update all "months" fields (including the Delivery Schedule, when applicable) for each line of the LOA, as well as the pricing for the lines. DSCA (IOPS/GEX/CWD) will then use the DSAMS payment schedule curves to recalculate the

payment schedule. IAs will update payment schedules via case modification or amendment, as appropriate, and in consideration of specific partner requirements. IAs must communicate with the Partner prior to modification and provide the partner a copy of all modifications to inform them of the revised payment schedule and updated delivery schedules. IAs may also update payment schedules as a result of a review (Financial Management Review (FMR), Security Assistance Management Review (SAMR), case review, Program Management Review (PMR), etc.) or if deemed necessary during the modification or amendment process. IAs must clearly communicate unique payment schedule requests in the LOA Checklist, DSAMS Case Remarks, and/or via the Letter of Request (LOR) for country unique payment schedules. Absent unique payment schedule guidance, DSCA (IOPS/GEX/CWD) will continue to prepare the payment schedule in accordance with defined business processes.

C9.9.3.1. Criteria to Prioritize LOAs with early Collections.

- LOAs that are less than 75 percent collected or delivered;
- LOAs solely funded with partner funds;
- LOAs with DU term of sale;
- LOAs not covered under a Special Billing Arrangement (SBA);
- LOAs that do not include a customer requested payment schedule;
- Total collections exceed disbursements by at least \$1M;
- LOAs that have been implemented for at least one year; and LOAs that are at least 15 percent financially executed

C9.9.3.2. Payment Schedule Revision Format for Amendments. Amendments use the payment schedule format in [Table C9.T23](#). When either the Term of Sale is "Cash With Acceptance;" or the case is fully funded with FMS Credit (Non-Repayable) and/or MAP Merger, and cash flow financing is not authorized, the Amount Due with Amendment Acceptance shall equal the increase in case value.

Table C9.T23. Payment Schedule Revision Format for Amendments

Payment Date	Quarterly	Cumulative
Previous Payments Scheduled (DD MMM YYYY)	N/A	\$
Current USG Financial Requirements		\$
Amount received from Purchaser		\$
Due with Amendment Acceptance	\$	\$
DD MMM YYYY	\$	\$
DD MMM YYYY	\$	\$

C9.9.3.3. Payment Schedule Revision Format for Modifications. Modifications use the payment schedule format in [Table C9.T24](#). When either the Term of Sale is "Cash With Acceptance;" or the case is fully funded with FMS Credit (Non-Repayable) and/or MAP Merger, and cash flow financing is not authorized, the next quarterly payment due shall equal the increase in case value.

Table C9.T24. Payment Schedule Revision Format for Modifications

Payment Date	Quarterly	Cumulative
Previous Payments Scheduled (DD MMM YYYY)	N/A	\$
Current USG Financial Requirements		\$
Amount received from Purchaser		\$
Revised Payments Scheduled (DD MMM YYYY)	\$	\$

DD MMM YYYY	\$	\$
DD MMM YYYY	\$	\$

C9.9.3.4. Showing Collections on Payment Schedules. In addition to showing quarterly payments, payment schedules on Amendments and Modifications also show the amount already paid by the FMS purchaser. The revised payment schedule is based on the forecasted requirements remaining on the case. Once these requirements are computed, the collections already received from the purchaser are considered.

C9.9.3.5. Purchaser Requests for Payment Schedule Review. Purchasers who wish a review or revision of a specific case payment schedule should forward a request to the appropriate IA.

C9.10. - Billing

Defense Finance and Accounting Services - Indianapolis (DFAS-IN) bills purchasers. [Table C9.T25.](#) shows the Foreign Military Sales (FMS) case billing timeline.

Table C9.T25. FMS Billing Timeline

Period Ended on Foreign Military Sales Billing Statement	Approximate Date of Foreign Military Sales Billing Statements	Payment Due at Defense Finance Accounting Service Indianapolis	For Period Covering
December 31st	January 15th	March 15th	April-June
March 31st	April 15th	June 15th	July-September
June 30th	July 15th	September 15th	October-December
September 30th	October 15th	December 15th	January-March

C9.10.1. Billing Procedures. Payments into the FMS Trust Fund, other than Initial Deposits, are based on bills (FMS Billing Statement, DD Form 645, or Special Billing Arrangement (SBA)). DFAS-IN sends the DD Form 645 to the purchaser quarterly. Under DSCA oversight, DFAS-IN assures that sufficient cash is available from the purchaser to cover accrued expenditures, costs to be incurred during the remainder of the current quarter, and costs to be incurred during the next quarter (e.g., contractor progress payments, contractor holdbacks, potential termination charges, and deliveries from DoD inventories). DD Form 645-based billings are the amount shown on the current case payment schedule or the quarterly forecast of the financial requirements accompanying the DD Form 645, bill, whichever is greater. The billing, not the payment schedule, contains the required payment amount. Implementing Agencies (IAs) refer billing problems and questions to DFAS-IN.

C9.10.2. Special Billing Arrangements. There are two official forms of FMS billing, the quarterly DD Form 645, Foreign Military Sales, Billing Statement issued by Defense Finance and Accounting Services (DFAS) and the DSCA issued SBA statements, referred to as Special Bill Letters (SBL). An SBL supersedes the DD 645 Billing Statement and serves as the official claim for payment issued to the FMS purchaser (DoD Financial Management Regulation (DoD FMR), [Volume 15, Chapter 8, Section 080301.A](#)). The purpose of the SBA is to improve cash management for eligible FMS partners. This is done by more accurately projecting cash requirements, including reserves for termination liability (TL), as agreed in the Letter of Offer and Acceptance (LOA). The SBA does not supersede the need for accurate LOA payment schedules; however, LOA payment schedules will not be adjusted to reflect revised payments requested in the Special Bill. The payment schedule on the basic LOA is imperative for partner nation budgeting and must be as accurate as possible. When it is known that the current payment schedule does not accurately reflect the financial requirements for the case, the IA should prepare a Modification to update the payment schedule. See [Figure C9.F6.](#) for a sample SBA agreement, and [Table C9.T26.](#) for Standard Elements of the SBA.

Figure C9.F6. Special Billing Arrangement Sample Agreement

- [PDF Version of Figure](#)
- [Web Version of Figure](#)

Figure C9.T6. Special Billing Arrangement Sample Agreement

SPECIAL BILLING ARRANGEMENT BETWEEN THE BANGKOK AIRPORT AUTHORITY AND DEFENSE SECURITY COOPERATION AGENCY	
1. Parties. The parties to this agreement are:	
a. The Ministry of Defense (DoD) of the Government of the United States of America (DoD).	
b. The Defense Security Cooperation Agency (DSCA), an agency of the United States Department of Defense (DoD).	
2. Definitions. For the purpose of this arrangement, the following definitions are applicable:	
Key Term	Description
Working Capital (Available Funds)	The current country cash balance of both their FMS Trust Fund account and, if applicable, an Interest-Bearing Account that has not been associated with a projected expenditure. Includes TL Reserve.
Special Reserve	A special reserve may be added for special requirements such as high value programs.
Baseline Reserve	The amount required for projected disbursements until the special bill payment arrives.
Working Fund	The amount required to cover future disbursements subsequent to payment of the special bill.
3. Scope. The scope of this arrangement:	
This Special Billing Arrangement (SBA) is to meet accounts payable cash requirements for year 145 program, including various for maintenance facility, maintenance facilities and program payments to contractors are provided to support the mission of the DoD and Airpower (DoD). Additionally, it will identify any amounts needed to cover costs and fund Special and Baseline Reserve with appropriate strategies for use and disbursements implemented without payment of the total amount identified, respectively.	
This SBA will include all requirements that cover Special cash requirements for baseline and Special programs such as 145 and 146 and other related program cases will be separately identified.	
This SBA is made in billing that represents the amount due and payable as stated in 145 Quarterly Billing Statements.	

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Table C9.T26. Standard Elements of the Special Billing Arrangement

Key Term	Description
Working Capital (Available Funds)	The current country cash balance of both their FMS Trust Fund account and, if applicable, an Interest-Bearing Account that has not been associated with a projected expenditure. Includes TL Reserve.
Special Reserve	A special reserve may be added for special requirements such as high value programs.
Baseline Reserve	The amount required for projected disbursements until the special bill payment arrives.
Working Fund	The amount required to cover future disbursements subsequent to payment of the special bill.

C9.10.2.1. Special Billing Arrangement Eligibility. FMS partners eligible for Dependable Undertaking (DU) and with a strong history of consistent and timely payments will be considered for SBAs.

C9.10.2.2. Special Billing Arrangement Authority. Pursuant to [DoD Directive \(DoDD\) 5105.65](#), the Director, DSCA has the authority to establish SBAs for eligible FMS partners. The Director has further delegated this authority to the DSCA Chief Financial Officer (CFO).

C9.10.2.3. Establishment of Special Billing Arrangements. FMS partners eligible for DU may submit a request for an SBA to the DSCA Principal Director for Business Operations for consideration. The DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE)) Regional Division will negotiate the SBA with the FMS partner as appropriate and will coordinate all prospective agreements with DSCA (Front Office, Office of the General Counsel (FO/OGC)), the applicable DSCA (Office of International Operations, Regional Execution Directorate (IOPS/REX)) division, and DSCA (OBO/FPRE) prior to presenting the SBA to the Principal Director for approval.

C9.10.2.3.1. Billing Frequency. SBAs must specify the frequency at which billing will occur. This can be on a monthly, quarterly, or semi-annual basis depending on the USG and FMS partner requirements defined and agreed to in the SBA.

C9.10.2.4. Special Bill Letter. After an SBA is established, DSCA will, on the date and at the frequency specified in the SBA, provide the FMS partner an SBL requesting payment. The SBL is the official billing document that supersedes the quarterly DD 645 billing statement when an SBA is established. The amount due and payable in the SBL supersedes Column 14 (Amount Due and Payable) of the DD 645 Billing Statement. See [Table C9.T27](#), for sample calculation.

C9.10.2.4.1. FMS partners with SBAs will have the following statement on LOAs that are billed in accordance with an SBA instead of the standard DD645 issued by DFAS:

"The above stated Estimated Payment Schedule represents the Department of Defense's (DoD's) best estimate of its cash requirements to provide the articles and/or services identified on this Letter of Offer and Acceptance (LOA) document. As such, these values are incorporated into the quarterly Foreign Military Sales Billing Statement, DD Form 645. However, to more accurately reflect the DoD's ongoing cash requirements for active LOAs, the Purchaser has entered into a Special Billing Arrangement that authorizes DSCA to issue a Special Bill Letter. This Special Bill Letter more accurately reflects the most current calculations of DoD's cash requirements for the Purchaser's FMS program. The amount due as stated on the periodic Special Bill Letter supersedes the Amount Due stated on the DD Form 645 and is the amount the Purchaser is obligated to pay. The amount due as stated on the Special Bill Letter is an official claim of the United States Government and is incorporated into this LOA for purposes of enforcement and claims."

C9.10.2.4.1.1. This statement will be added by DSCA/GEX/CWD. The purpose of this LOA statement is to ensure all parties are aware of the official billing method for each LOA. This statement ensures there is notification and transparency of the official billing method.

C9.10.2.4.2. The Defense Security Assistance Management System (DSAMS) Country Reference Report (WN039) has been updated as necessary to identify all FMS partners that use SBAs. Country Finance Directors (CFDs) will communicate DSAMS exceptions and changes to the DSCA (Office of Business Operations, Information Management and Technology Directorate (OBO/IMT)) DSAMS team. These changes will be updated on the DSAMS Country Reference Report (WN039) and/or DSAMS Case Detail Window (WN005) as appropriate. DSCA (OBO/FPRE) Regional Division will be responsible for reviewing all LOAs to ensure the above Special Bill statement is inserted on LOA documents as necessary.

Table C9.T27. Special Bill Letter Sample Calculation for One Billing Period

Elements of the Special Billing Arrangement	Amount
Working Capital (Total Funds Available)	\$100M
Less Special Reserve for TL	(\$15M)
<u>Less Special Reserve for Major Case BN-D-SAM</u>	<u>(\$25M)</u>
Equals Net Available	\$60M
Less Working Fund	(\$50M)
<u>Less Baseline Reserve (Forecasted Financial Requirements)</u>	<u>(\$25M)</u>
Equals Total Amount Due for Billing Period	\$15M

C9.10.2.5. Special Bill Letter Responsibilities. DSCA (OBO) is the primary office of responsibility for establishment of SBAs with FMS partners. DSCA (OBO/FPRE) Regional Divisions are responsible for the ongoing management of special bills at the country level ([DoD FMR, Volume 15, Chapter 4, Section 030201.B](#)). DFAS Security Cooperation Accounting (DFAS-SCA) will provide supporting documentation to DSCA (OBO/FPRE) Regional Division, as needed, on a recurring basis.

C9.10.2.5.1. Country Financial Management. The DSCA (OBO/FPRE) Regional Division manages and calculates all SBLs in accordance with the SBA and answers any queries regarding the SBA or the SBL process.

C9.10.2.5.2. Defense Finance and Accounting Service, Directorate for Security Cooperation Accounting. Provides supporting documentation for SBL calculations as agreed upon with the DSCA (OBO/FPRE) Regional Division.

C9.10.2.5.3. Implementing Agencies. Irrespective of the FMS partner's billing method, IAs are responsible to ensure LOA payment schedules are accurate by performing annual reviews as required by the [Table C9.T2A.](#), and by reviewing and updating the payment schedules each time the case is Modified or Amended.

C9.10.2.6. Special Billing Arrangement Termination. SBAs can be terminated by the USG or FMS partner with at least 30 days of notice.

C9.10.2.6.1. Special Billing Arrangement Termination by Foreign Military Sales Partner. The FMS partner shall notify DSCA at least 30 days in advance of intent to terminate an SBA. Within 10 business days of receiving an SBA termination notice, the DSCA (OBO/FPRE) Regional Division will provide the FMS partner with a final SBL for the amount due pursuant to the SBA until the next DD 645 billing statement is available. The final SBL will also inform the FMS partner of when to recommence use of the DD 645 billing statement. The amount due reflected in the final SBL will be based on calculated cash requirements until the next DD 645 payment due date. The FMS partner must pay the full amount due by the due date in the final SBL and before the next DD 645 is generated. See [Table C9.T28.](#) for sample calculation.

Table C9.T28. Special Bill Termination, Sample Calculation

Date	Fiscal Year Quarter	Supporting Document	Amount
Dec 31, 2018	3	Quarter 3 - DD 645 Billing Statement, Amount Due 15 March for April - July expenditures	\$45M
Mar 5, 2019	3	Quarterly SBL for April 2019 - Amount Due \$12M	-
Mar 30, 2019	3	Official Termination Notice (30 Days)	-
Mar 30, 2019	4	Quarter 4 - DD 645 Billing Statement, Amount Due 15 June for July - September expenditures	\$65M
Apr 10, 2019	3	FMS Partner payment of April 2019 SBL	(\$12M)
Apr 13, 2019	3	Final Bill Letter Due on 25 April (Quarter 3 FY2018 DD 645 Amount Due of \$45M less April Special Bill Payment of \$12M)	\$33M

Apr 25, 2019	3	Payment of Final Bill Letter	(\$33M)
April 25, 2019	3	Remaining Balance Due from FMS Partner for Quarter 3	\$0
April 25, 2019	4	Remaining Balance Due from FMS Partner for Quarter 4 (Quarter 4 FY2018 DD 645 Amount Due of \$65M less Quarter 3 Special Bill Payment of \$12M less Final Bill Payment of \$33M)	\$20M
June 15, 2019	4	DFAS Receives Payment from FMS Partner	(\$20M)
June 15, 2019	4	Remaining Balance Due from FMS Partner for Quarter 4	\$0

C9.10.2.6.2. DSCA shall notify the FMS partner at least 30 days in advance of intent to terminate an SBA. Within 10 business days of sending the SBA termination notice, DSCA (OBO/FPRE) Regional Division will provide the FMS partner with a final SBL for the amount due pursuant to the SBA until the next DD 645 billing statement is available. The final SBL will also inform the FMS partner of when to recommence use of the DD 645 billing statement. The amount due reflected in the SBL will be based on calculated cash requirements until the next DD 645 payment due date. The FMS partner must pay the full amount due by the due date in the final SBL and before the next DD 645 is generated. See [Table C9.T28](#), for sample calculation.

C9.10.2.6.2.1. Special Billing Arrangement Termination for Cause. If the FMS partner regularly does not make its payments as billed or becomes ineligible for DU, the USG will unilaterally terminate the SBA agreement with 30 days of notice to the FMS partner from the DSCA CFO. The DSCA (OBO/FPRE) Regional Division staff will then transition the FMS partner to the official DD 645 quarterly billing statement following the processes outlined in [Section C9.10.2.6.2.](#) and [Section C9.10.2.6.3.](#) Until the FMS partner is considered paid in full, there may be restrictions on the partner's FMS program as outlined in the paragraphs below.

C9.10.2.6.2.2. Existing Letters of Offer and Acceptance. When an SBA is terminated for cause, no new case scope will be authorized on cases currently being executed until the amount due on the final letter is paid in full (i.e. no arrears).

C9.10.2.6.2.3. New Letters of Offer and Acceptance. New LOAs using the Cash with Acceptance term of sale may be made available to the FMS partner, if appropriate.

C9.10.2.6.3. Foreign Military Sales Partner Inability to Pay Final Special Bill Letter. If the FMS partner is unable to pay the full amount due, DSCA (OBO/FPRE) Regional Division will work with the FMS partner to structure a reasonable repayment plan which ensures timely collection of the amount due over the coming quarters. The timeframe for repayment may not exceed the four subsequent quarters. It is essential that the full TL Reserve be included in the up-front payment amounts because TL reserves cannot be used to pay FMS bills ([DoD FMR, Vol 15, Ch 4, Section 040601](#)).

C9.10.2.6.3.1. Quarterly Collection Process. The FMS partner should pay the amount due in the Final SBL, which is calculated based on Column 14 (Amount Due and Payable) of the current DD Form 645, as soon as possible. If not possible, then DSCA (OBO/FPRE) Regional Division will work with the FMS partner to structure repayment over no more than the four subsequent quarters.

C9.10.2.6.3.2. Special Billing Arrangement Termination and Non-Payment. Per the [DoD FMR, Volume 16, Chapter 6](#), if the FMS Partner fails to follow the structured repayment process, any country-level arrears will be treated the same as any other arrears in FMS and will be subject to interest charges.

C9.11. - Foreign Military Sales Payments from Purchasers

The Arms Export Control Act (AECA) normally requires Foreign Military Sales (FMS) monies to be collected in advance of delivery, service performance, or contractual progress payments. Accumulation of large balances in purchaser Trust Fund accounts for substantial periods should be avoided, except for contract holdbacks and other accrued or potential liabilities, or when the purchaser requests an accelerated payment schedule.

C9.11.1. Trust Fund Accounts. Defense Finance and Accounting Services - Indianapolis (DFAS-IN) performs accounting for FMS, account 11X8242, by executing against subsidiary accounts: 978242 (Deposits, Advances, Foreign Military Sales, Defense) - receipt of payments and 97-11X8242 (Advances, Foreign Military Sales, Executive, Defense) - disbursements to suppliers. The purchaser makes payments to DFAS-IN for deposit into the FMS Trust Fund (unless the purchaser has an interest-bearing account with the Federal Reserve Bank (FRB) New York. FMS Trust Fund Wire Transfer and Check Mailing Information are found on the Letter of Offer and Acceptance (LOA) Information attached to each LOA. See [Figure C5.F5](#). Payments must identify the case designator and reason for the payment. Implementing Agencies (IAs) refer collection problems and questions to DFAS-IN.

C9.11.2. Federal Reserve Bank New York Accounts. Some countries may establish an account with the FRB New York, for their FMS deposits. An agreement between the FMS purchaser's defense organization, the purchaser's central bank (or an acceptable equivalent), FRB New York and DSCA identifies the terms, conditions, and mechanics of the account's operation. FMS purchasers should contact the FRB New York or the DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE)) Regional Division regarding these accounts. Except as authorized by law and/or DSCA policy, the FRB New York accounts do not include Foreign Military Financing (FMF) funds. See [Section C9.7.](#) for information on FMF. The DSCA Chief Financial Officer (CFO) is the signature authority for new FRB agreements.

C9.11.3. Commercial Banking Account. Some countries may establish an account with a commercial bank for their FMS deposits. Two agreements are required: (1) an agreement between the FMS purchaser and the participating commercial bank, and (2) a separate agreement between the FMS purchaser and DSCA. FMS purchasers should contact the DSCA (OBO/FPRE) Regional Division regarding these accounts. The DSCA CFO is the signature authority for new Commercial Bank Account (CBA) agreements. Commercial accounts do not include FMF funds.

C9.11.4. Payment Identification. Each deposit made into the FMS Trust Fund is recorded to the appropriate FMS case. If the payment cannot be identified to a specific case, it is deposited in the FMS purchaser's Holding Account pending identification.

C9.11.5. Excess Funds. Payments received for an FMS case may exceed the final case value or the highest financial requirement (all financial commitments billed to date, plus all financial commitments not yet billed (e.g., contracts awarded but not delivered), and must include below-the-line surcharges). Upon closure, excess funds are retained in the purchaser's Holding Account pending further instructions. Excess case collections can be applied only to another case at the purchaser's request. Payments in excess of the value of a particular case may be transferred into the purchaser's Holding Accounts under the following conditions.

C9.11.5.1. Excess Funds - National Funds. Excess national funds are transferred to a cash Holding Account upon case closure, case cancellation, or purchaser's request. At the purchaser's written request, deposits in cash Holding Accounts may be applied to other FMS cases or refunded if the purchaser is not on the current quarter Arrearage Report, there are no collection delinquencies on other FMS cases, and there is sufficient cash reserve to meet financial requirements (including termination liability (TL) if no Standby Letter of Credit (SBLC) applies) for the next quarter. Cash refunds must be approved by DSCA (Office of Business Operations (OBO)).

C9.11.5.2. Excess Funds - Foreign Military Sales Credits. DFAS-IN transfers excess credit funds from closed or cancelled cases to the credit Holding Account. Prior to each billing cycle, DFAS-IN moves excess funds in the credit Holding Account to other FMS credit-financed cases (not to exceed the total credits committed to each case). DFAS-IN applies the funds first to credit cases with overdue payments, and then to credit cases with payments due in the next billing cycle. If there are no remaining candidate cases, funds remain in the credit Holding Account. Prior to transferring credits to or from cases at case closure, DFAS-IN requests (via e-mail or facsimile) approval from DSCA (OBO); credit commitment records are adjusted to reflect the final case value.

C9.11.5.3. Excess Funds - Military Assistance Program Merger. DFAS-IN transfers excess Military Assistance Program (MAP) Merger funds from closed or cancelled cases to the MAP Merger Holding Account. Prior to transferring MAP Merger funds to or from cases at case closure, DFAS-IN requests (via e-mail or facsimile) approval from DSCA (OBO); MAP Merger commitment records are adjusted to reflect the final case value.

C9.11.5.4. Excess Funds - Other Funding. Upon reduction or cancellation of FMS cases financed with funds other than those above, DFAS-IN, with DSCA (OBO) coordination, transfers excess funds to the applicable holding account.

C9.11.6. Movement of Purchaser Funds. DFAS-IN moves national funds to and from Holding Accounts or between cases only when such requests are channeled through the FMS purchaser's designated representative. The use of notes or other references in LOA documents (Basic, Amendment, or Modification) concerning transfers or refunds of FMS purchaser funds, is not authorized. IAs do not enter any remarks on LOA documents transferring purchaser funds from one case to another except for concurrent documents. See [Section C6.7.2.3](#). Such remarks can be misleading, contradictory to instructions provided to DFAS-IN by the Purchaser, and not effective if cross leveling is required.

C9.11.7. Initial Deposit Follow-Up. If DFAS-IN receives a signed LOA or Amendment without the required initial deposit, they shall follow-up within 10 working days per the procedures that follow.

C9.11.7.1. Follow-Up Process. DFAS-IN notifies the DSCA Country Finance Director (CFD). Upon approval from the DSCA CFD, DFAS-IN notifies the Security Cooperation Office (SCO), the FMS purchaser's paying office, and the IA that the initial deposit has not been received. This notification states that implementation of the LOA or Amendment is held pending receipt of the initial deposit or approval of initial deposit deferment. If the initial deposit is not received by the Offer Expiration Date (OED), the following consequences may occur:

1. Pricing changes
2. Delivery date changes
3. Materials and services may become unavailable

If a case remains in accepted status after the OED has passed and does not implement, the USG reserves the right to cancel the case.

C9.11.7.2. Foreign Military Sales Credit (Non-Repayable) or Military Assistance Program Merger Initial Deposits. If the Terms of Sale are FMS Credit (Non-Repayable) or MAP Merger, DFAS-IN uses funds from the appropriate Holding Account to pay the Initial Deposit.

C9.11.8. Delinquent Accounts. Details on arrearages, indebtedness, delinquent debt reporting formats and frequencies are contained in Department of Defense Financial Management Regulation (DoD FMR) 7000.14-R, [Volume 15, Chapter 3](#), and [Volume 16, Chapter 6](#). Most collection problems are caused by late payment, rather than default on payments. It generally takes 45-75 days after the billing statement mailing to receive collection.

C9.11.8.1. Interest on Delinquent Accounts. The AECA requires DoD to assess interest on delinquent FMS program debts. DFAS-IN assesses this interest. Interest is based on the net arrearage owed by a purchaser taking into account cumulative financial requirements and cumulative payments received on each FMS case. The DD Form 645, Quarterly Billing Statement, reflects the amount of interest charged to each applicable case.

C9.11.8.2. Delinquent Accounts Procedures. DFAS-IN is responsible for assessing interest and collecting overdue debts to FMS cash sales. This is accomplished by formal and informal contacts with purchaser representatives, requests for collection assistance from the SCO and DSCA, and contacts with the Department of State (State) to determine additional collection actions. When all collection means have been exhausted, DFAS-IN refers the delinquent account to DSCA (OBO), and provides the following supporting data: the debt history including prior collection efforts; a description of disputes between the purchaser and the United States; a statement that resolution through the normal military channel with responsible foreign officials concerning the collection has failed; and an assessment of any adverse impact on the purchaser if the issue is raised to the diplomatic level. DSCA (OBO) recommends further action to be taken by the Office of the Secretary of Defense (OSD), refers the debt to the State for diplomatic assistance, or refers the debt to the Department of Justice for adjudication. DFAS-IN carries delinquent accounts on the accounting records even after primary collection responsibility is passed to DSCA and State.

C9.12. - Disbursement for Foreign Military Sales Agreements

C9.12.1. Level of Accounting. Foreign Military Sales (FMS) monies reimburse U.S. appropriations or are cited directly on payments to U.S. contractors. In accordance with the Letter of Offer and Acceptance (LOA), cash deposits may be disbursed for the financial requirements of any of that purchaser's implemented cases. Accounting for FMS transactions is at least at the case level (many accounting transactions are recorded at the line level).

C9.12.2. Expenditure Authority. The total DoD available cash for each FMS purchaser is equal to the amount of undisbursed and/or unreserved monies on deposit for the purchaser in the FMS Trust Fund. The available cash is reduced by all reservations of funds (e.g., termination liability (TL) and expenditure authority). Based on the amount of a disbursement request and available funds, Defense Finance and Accounting Services - Indianapolis (DFAS-IN) advises the expenditure authority requestor whether the expenditure authority is approved and the disbursement can occur. If a country does not have enough available cash, expenditure authority is not approved and the disbursement is placed on hold. The Implementing Agency (IA) ensures the disbursement limit is not exceeded when paying contractors or reimbursing U.S. appropriations.

C9.12.3. Segregating and Accounting for Foreign Military Sales Costs. The Arms Export Control Act (AECA), Section 22 (22 U.S.C. 2762) and Section 29 (22 U.S.C. 2769) require accurate and prompt segregation and accounting of incremental costs to ensure that DoD appropriations are not adversely impacted by contractual payments on behalf of FMS orders. DoD policy requires contractors to request separate progress payments when more than one purchaser's requirements (including the United States) are included in the same contract. Payments to contractors are reported by the proponent activity (e.g., IA) to DFAS-IN to ensure that billings reflect the disbursement rate. If scheduled payments are not adequate, the IA modifies the payment schedule using an Amendment or Modification to the FMS case.

C9.13. - Performance Reporting

C9.13.1. Reporting Performance of Foreign Military Sales Orders.

C9.13.1.1. Foreign Military Sales Integrated Control System. After a Foreign Military Sales (FMS) case is implemented, the Implementing Agency (IA) executes the program. The IA reports the nature and financial value of transactions to Defense Finance and Accounting Services - Indianapolis (DFAS-IN). The IA reports accrued expenditures, also referred to as "work-in-process" (e.g., progress payments made to contractors, Government Furnished Material (GFM) and/or Government Furnished Equipment (GFE) provided to contractors, and Nonrecurring Costs (NCs)), and physical deliveries within 30 days of the date of shipment or performance. The FMS Integrated Control System (FICS) Delivery Transaction is submitted bi-monthly in accordance with the schedule established by DFAS-IN. The format and instructions for completing the delivery transaction are prescribed in Department of Defense Financial Management Regulation (DoD FMR) 7000.14-R, Volume 15, Chapter 8. Purchasers direct delivery problems and questions to the IA.

C9.13.1.2. Foreign Military Sales Physical (constructive) Delivery Reporting. Physical (Constructive) delivery is the delivery of materiel to a carrier for transportation to the consignee; delivery of materiel to the customer or the designated forwarder at point of production, testing or storage; delivery at dockside, at airports, or to a U.S. post office for shipment to the consignee. Delivery is evidenced by completed shipping documents or listings of delivery to the U.S. post office (DoD FMR, Volume 6A, Chapter 13). The IA submits FMS physical (constructive) delivery data for all major end items that have a unit of issue of "EA" for the generic codes shown in Table C9.T29. Items are considered delivered when title passes to the purchaser. IAs report, within 30 days, all constructive deliveries for selected materiel lines to DFAS-IN by the 20th of each month in the C1 delivery transaction format (Table C9.T30), Reports Control Symbol (RCS) DSCA(M)1141. DFAS-IN, in turn, submits this data to the DSCA (Office of Business Operations (OBO)) for inclusion in the Case Performance Reporting System (CPRS). These transactions are not a part of the formal FMS billing system. This information is used to prepare Arms Export Control Act (AECA) required reports and to respond to inquiries.

Table C9.T29. Constructive Delivery Reporting Generic Codes

Generic Code	Description
A1_ - A5_, A9B	Aircraft
B1_ - B4_ (Complete Missile Lines Only)	Missiles
C_ _	Ships
D_ _	Combat Vehicles
E3_	Tactical and Support Vehicles
F2_, F3_, F4_	Weapons
G2_, G4_, G5_ (Less M and Y), G6A	Ammunition
H4_	Communications Equipment

Table C9.T30. C1 Delivery Transaction Format

Column	Data Element
1-2	C1

3-4	Country Code
5	IA
6-8	Case Designator
9-11	Record Serial Number (RSN)
12-15	Blank
16-21	Cumulative Quantity to Date
22-72	Blank
73-78	Reporting Date (YYMMDD)
79	Blank
80	Originator (must always be "A")

C9.13.2. Delivery Reporting Timelines. Timely reporting of delivery information to the FMS purchaser is critical. Estimated price codes may be used to report deliveries of major end items if an actual price is not available within 30 days of the shipment date. Estimated price codes must be used to report deliveries of major end items if an actual price is not available within 90 days of the shipment date. All estimated billings must be converted to actual billings prior to closure.

C9.13.3. Performance/Delivery Reporting Monthly Review. DFAS-IN will generate and provide a monthly IA Report Card to DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate (OBO/FPRE)) and the IAs to include delivery reporting trends and detailed delivery transaction data. DSCA (OBO/FPRE), Defense Finance and Accounting Service, Directorate for Security Cooperation Accounting (DFAS-SCA), and the IAs will review and analyze the data provided to include trends for deliveries reported over the 30-day reporting requirement to determine the root cause and implement corrective actions.

C9.14. - Financial Reviews

C9.14.1. Financial Management Reviews. DSCA reviews the current and forecasted financial posture of a Foreign Military Sales (FMS) purchaser's program and holds a Financial Management Review (FMR), if needed, with the FMS purchaser to: reconcile financial records, review the financial status of FMS cases, ensure continued solvency of the FMS purchaser accounts, improve cycle times, identify cases requiring intensive financial management, and formulate financing strategies for existing and prospective FMS purchases. DSCA works with the Implementing Agencies (IAs), Security Cooperation Organizations (SCOs), Defense Finance and Accounting Service (DFAS), and the FMS purchaser in planning and executing FMRs. [Figure C9.F7.](#) provides a mandatory format for preparing for an FMR. Minor adjustments to this standard format must be authorized by the DSCA (Office of Business Operations, Regional Execution & Financial Policy Directorate (OBO/FPRE)) Country Finance Director (CFD). See [Chapter 6](#) for information on other types of case reviews.

Figure C9.F7. Financial Management Review - Case Financial Status Reporting Format

(Format in use as of March 1, 2011)

Figure C9.F7. Financial Management Review - Case Financial Status Reporting Format
(Format in use as of March 1, 2011)

UNITED STATES - (Insert Country) (Insert Year) Financial Management Review
CASE PROBLEMS (C9.F7)
Data as of 30 Months 1999

CASE SUMMARY

Item	Date/Value	Source/Definition
Case Designator	XXXX-XXXX	Designation of the FMS case, as identified by the Implementing Agency (IA), the originating Agency (IA), and the Case Designator (IA).
Case Description		A short description of the FMS case, as provided by the IA. The description is printed on the cover of the FMR and is included in the FMR.
Year (IA Signed)		The date the FMS case was implemented.
IA		The IA responsible for the execution of the program under the FMS case. The IA is identified by the Implementing Agency (IA) and is included in the FMR.
In-Country Service (ICS)		A statement indicating the military service of the FMS case.
Terms of Sale		The Terms of Sale will be based on a copy of the FMS case, as provided by the Implementing Agency (IA).

CASE FINANCIAL SUMMARY

Item	Date/Value	Source/Definition
(1) Total Case Value	\$	Value of the FMS case, as provided by the Implementing Agency (IA).
(2) Actual Case Value	\$	This represents the Net Case Value, the sum of all deliveries made under the FMS case, including Contract Administration Services (CAS) and the original Support Charge (SC).
(3) Actual Case Value	\$	It is derived from the Net Case Value, as provided by the Implementing Agency (IA).

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C9.14.2. Business Process Reviews.

C9.14.2.1. Background. In 2006, financial reforms were implemented across the security assistance (SA)/security cooperation (SC) community. This was the result of an increase to the FMS Administrative Surcharge rate (from 2.5 percent to 3.8 percent) and renewed efforts to enforce existing manpower requirements by DSCA and the SA/SC community, to ensure funds were spent appropriately and in a consistent manner. DSCA's responsibility to ensure funds are used correctly is defined in [Department of Defense Financial Management Regulation \(DoD FMR\) 7000.14-R, Volume 15](#), and [DoD Directive \(DoDD\) 5105.65](#). DSCA must "monitor usage of FMS Trust Funds to include periodic reviews of funding levels and unused balances." Further, DSCA exercises "financial management responsibility for the FMS Trust Fund and reporting functions for SC programs." DSCA began conducting these Business Process Reviews (BPRs) in Fiscal Year (FY) 2011. Subsequent BPRs will take into account an organization's FMS Administrative Surcharge, Contract Administration Services (CAS) Surcharge, and Building Partner Capacity (BPC) program support funds, as necessary.

C9.14.2.2. Purpose. The purpose of each BPR is to evaluate an organization's business practices as they relate to the use of FMS Administrative and CAS Surcharge funds, Case Funds, BPC program support funds and compliance with SA policies and procedures. The review is not an audit or an inspection, but is a joint effort, with the applicable IA, to assess existing processes to better understand them and assist with any issues. The desired objectives are to identify areas for improvement (in policies, processes, or practices) and take actions necessary to correct as well as to identify best practices to share with the community.

C9.14.2.3. Procedures. DSCA will lead, at a minimum, a total of two reviews on an annual basis; however, the goal is to conduct one review with each Military Department (MILDEP) IA annually. DSCA leadership can at any time direct reviews, to include reviews of other IAs. The lead for these reviews is DSCA (Office of Business Operations, Financial Policy and Regional Execution Directorate, Financial Analysis and Compliance Division (OBO/FPRE/FAC)). Other DSCA participating offices may include DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)), DSCA (Office of Strategy, Plans, and Policy (SPP)), and DSCA (Front Office, Office of the General Counsel (FO/OGC)) depending on the location and focus of the review. Participation will also include representatives from the IA, and other technical experts, as required. In the first quarter of each fiscal year, DSCA (OBO) will send a memorandum notifying the IAs selected for the BPR (based on a risk-based approach or by DSCA leadership request), including the questions to be addressed and a suggested timeframe for the reviews.

C9.14.2.4. Deliverables. DSCA (OBO/FPRE/FAC) will prepare minutes from the BPRs, to include any action items, and provide to the IA participants no later than 20 business days after completion of the BPR. Further, DSCA (OBO) will track the status of action items and follow-up quarterly until all open action items are completed.

C9.15. - Foreign Military Sales Trust Fund Administrative Surcharge Account Management

C9.15.1. Account Safety Level.

C9.15.1.1. Safety Level General Information. The safety level is a strategic reserve of operating capital sufficient to manage the Foreign Military Sales (FMS) business through changing business conditions and ensure the account's solvency. FMS is a key enabler supporting coalition operations and building partner capacities and thus will remain an integral USG and DoD strategy indefinitely.

C9.15.1.2. Safety Level Assumptions. DSCA implements a Safety Level of eighteen (18) months of operational funding (based on annual budget requirements authorized under the Foreign Assistance Act (FAA)) that affords sufficient time to recognize volatility in the FMS business environment and then develop and implement adaptive business strategies to protect the solvency of the FMS Administrative Surcharge Account and allow for the orderly disposition of cases in accordance with active FMS agreements.

C9.15.1.3. Methodology. DSCA will establish the Safety Level using the FMS Administrative Operating Ceiling noted in the Annual State and Foreign Operations Appropriation Act for the upcoming fiscal year. The amount under the Annual Department of State (State)) and Foreign Operations Appropriation Act will be divided by 12 months to arrive to a monthly operational funding amount. The monthly amount will then be multiplied by 18 months to arrive at the Safety Level. The Safety Level amount will be established before the start of the fiscal year and will be forwarded to the Defense Finance and Accounting Service (DFAS) to ensure the FMS Administrative Surcharge Account maintains the Safety Level amount.

C9.15.1.4. Review and Re-validation of Data Sources. The Safety Level will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account report, the final report of prior year sales, the FMS forecast, and information from the conclusion of the DSCA Security Assistance Budget and Program Review cycles. In addition to this annual review, DSCA will monitor the FMS program for possible events that necessitate an out-of-cycle/immediate review of the business environment. These events may include a change in bi-lateral relationship(s) with the top FMS customers (e.g., sanctions) relative to sales figures, regional conflict, and/or sales that significantly lag the forecast (e.g., greater than 3 months). For planning purposes, DSCA is using 18 months of expense data based on the most recent year of funding for the Safety Level computation.

C9.15.2. Account Upper Control.

C9.15.2.1. Account Upper Control General Information. DSCA recognizes that the agency should have an upper control for the FMS Trust Fund Administrative Surcharge Account. An established upper control would be a financial management tool to guard against surcharge over collections and ensure the agency does not collect more than it needs to resource the FMS community.

C9.15.2.2. Assumptions. The underlying assumption is that an account upper control, combined with the safety level, establishes a management tool for the FMS Trust Fund Administrative Surcharge Account. By setting upper and lower bounds of acceptable levels of annual surcharge collections given normal variation, a "control box" alerts the agency to a dramatic change in the FMS operating environment that may require an agency response such as an out-of-cycle comprehensive review to address the amount of surcharge collection being deposited into the FMS Trust Fund Administrative Surcharge Account.

C9.15.2.3. Methodology. DSCA will establish the Upper Control using the FMS Administrative Operating Ceiling noted in the Annual State and Foreign Operations Appropriation Act for the upcoming fiscal year. The amount under the Annual State and Foreign Operations Appropriation Act will be multiplied by five years to arrive to an annual Upper Control level. The computation is based on five years as this is the desired time interval between comprehensive reviews.

C9.15.2.4. Review and Re-validation of Data Sources. The Upper Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account report, the final report of prior year sales, the Security Assistance Budget and Program Review, and the FMS forecast. In addition to this annual review, DSCA will monitor the FMS program for possible events that necessitate an out-of-cycle/immediate review of the business environment. These events may include a change in bi-lateral relationship(s) with the top FMS customers (e.g., sanctions) relative to sales figures, regional conflict, and/or sales that significantly lag the forecast (e.g., greater than 3 months). For planning purposes, DSCA is using five years of expense data based on the most recent year of funding for the Upper Control computation.

C9.15.3. Assessment(s) of the Foreign Military Sales Trust Fund Administrative Surcharge Account.

C9.15.3.1. An annual assessment will be conducted during the first quarter of current fiscal year. The requirement for this review is defined in the [DoD Financial Management Regulation \(DoD FMR\), Volume 15, Chapter 3, Sec 030408.G](#). For this review, DSCA uses the following information:

- DFAS end of year report for the FMS Trust Fund Administrative Surcharge account balance. (Report Name: FMS Cost Charge Account. See "TOTAL ADMIN" column Ending Balance Sep 30, 20XX")
- DFAS end of year report for total undelivered articles and services. (Report Name: Quarterly Undelivered Report (July-Sept 20XX date). Document provides a list of all open cases; date case was implemented, total order value and total delivered and undelivered value of each case.
- Forecast FMS sales for current and future year. (Data developed by DSCA (Office of International Operations, Weapons Directorate (IOPS/WPN)), as prescribed in [Chapter 14](#).)
- Anticipated Budget and Program Objective Memoranda (POM) requirements (projected future expenses). Budget amount provided by DSCA (Office of Business Operations, Comptroller Directorate (OBO/CMP)) and POM amounts from DSCA (Office of Strategy, Policy, and Plans, Regional Planning and Program Design Directorate (SPP/RPPD)).
- Input above data into DSCA Forecast Model to assess the projected balance of the FMS Trust Fund Administrative Surcharge Account.

C9.15.3.1.1. An annual report will be drafted at the conclusion of the annual assessment. The annual report is used to monitor the health of the FMS Trust Fund Administrative Surcharge Account from the previous fiscal year. The report will detail the account's financial activity, beginning and ending balances, and any implemented surcharge rate adjustment.

C9.15.3.2. Monthly Review. A monthly review of the business environment will be conducted to determine if the results of the Annual Assessment of the FMS Trust Fund Administrative Surcharge Account remain valid. Data considered in this review will include the following:

- Changes in bi-lateral relationship(s) with top five FMS customers (e.g., sanctions) relative to sales
- Regional conflicts
- Changes in global economy
- Forecast FMS sales lagging for greater than 3 months
- Asymmetric threats that require new defense articles and services

C9.15.3.3. Comprehensive Review. Absent changes to the FMS Administrative Surcharge Rate and triggers to the Upper Control and Safety Levels, a comprehensive review of the FMS Trust Fund Administrative Surcharge Account will be performed every five (5) years, following the completion date of the previous review. This comprehensive five-year review will look at the previous 60 months of rate data and will begin on the month following the End-of-Month reconciliation of the 60th month. However, based on the financial health of the FMS Trust Fund Administrative Surcharge Account, and at the discretion of the Director, DSCA, the comprehensive review may be accelerated or delayed to perform an out-of-cycle comprehensive review outside the five-year window. Delays must include justification signed by the Director.

C9.15.3.3.1. Exceptions. When an out-of-cycle FMS Administrative Surcharge Rate change has occurred, the comprehensive review will be performed five years after the implementation of the rate change to provide adequate time to analyze the performance of the new rate. When triggers to the Upper Controls or Safety Levels occur, an accelerated/out-of-cycle comprehensive review may be required.

C9.15.3.3.2. DSCA will perform the review and may request participation from outside entities (i.e. Naval Post-Graduate School, private industry, etc.) to provide an independent perspective.

C9.15.3.3.3. This comprehensive review will include detailed analysis of the FMS Administrative Surcharge Rate, to include an examination of the Upper Control Limits and Safety Levels and their underlying assumptions.

C9.16. - Foreign Military Sales Contract Administration Services Cost Clearing Account.

C9.16.1. Account Safety Level. The safety level ensures the Foreign Military Sales (FMS) Contract Administration Services (CAS) Cost Clearing Account carries a sufficient balance of CAS surcharge collections to reimburse service providers for their actual expenses.

C9.16.1.1. Safety Level General Information. The account safety level allows DSCA sufficient time to react to significant changes in the account balance if necessary. The account safety level takes into account the fluctuation in sales levels and the value of the procurement delivered. The safety level is calculated every fiscal year.

C9.16.1.2. Methodology. DSCA will set and calculate the Safety Level based on three years of estimated annual account expenditures. A safety level representing three years of annual expenditures plus outstanding obligation authority from previous years is necessary to cover all of the account's possible expenses. The Safety Level will be calculated at the start of the fiscal year and will be forwarded to the Defense Finance and Accounting Service (DFAS) to ensure the FMS CAS Cost Clearing Account maintains the Safety Level amount.

C9.16.1.3. Review and Re-validation of Data Sources. The Safety Level will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS CAS Cost Clearing Account report, the final report of prior year sales, Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) future year inflation projections, and information from the conclusion of the DSCA Security Assistance Budget and Program Review cycle.

C9.16.2. Account Upper Control.

C9.16.2.1. Account Upper Control General Information. DSCA recognizes that the agency should have an upper control for the FMS CAS Cost Clearing Account. An established upper control would be a financial management tool to guard against surcharge over collections and ensure the agency does not collect more than it needs to support contract-related activities.

C9.16.2.2. Assumptions. The underlying assumption is that an account upper control, combined with the safety level, establishes a management tool for the FMS CAS Cost Clearing Account. By setting upper and lower bounds of acceptable levels of annual surcharge collections given normal variation, a "control box" alerts the agency to a dramatic change in the operating environment that may require an agency response such as an out-of-cycle comprehensive review to address the amount of surcharge collection being deposited into the FMS CAS Cost Clearing Account.

C9.16.2.3. Methodology. DSCA will establish the Upper Control using prior year outstanding obligation authority, two-year budget projections, plus three additional years that include an adjustment factor. The adjustment factor is determined by looking at prior year growth, OUSD(C) inflation factors (primarily for civilian personnel), and FMS sales trends.

C9.16.2.4. Review and Re-validation of Data Sources. The Upper Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS CAS Cost Clearing Account report, the final report of prior year sales, OUSD(C) future year inflation projections, and information from the conclusion of the DSCA Security Assistance Budget and Program Review cycle.

C9.16.3. Assessment(s) of the Foreign Military Sales Contract Administration Services Cost Clearing Account.

C9.16.3.1. An annual assessment will be conducted during the first quarter of current fiscal year. The requirement for this review is defined in the DSCA Manager's Internal Control Program Process Map Narrative. The annual assessment provides a financial overview of the FMS CAS Cost Clearing Account, examines the account's safety level and upper control limit, reviews actual CAS expenditures, and provides an account outlook for the upcoming fiscal year. An annual report will be drafted at the conclusion of the annual assessment. The annual report is used to monitor the health of the FMS CAS Cost Clearing Account from the previous fiscal year. The report will detail the account's financial activity, beginning and ending balances, and any implemented surcharge rate adjustment.

C9.16.3.2. Monthly Review. A monthly review of the FMS CAS Cost Clearing Account will be performed to examine if the account balance remains within the established upper control limit and the safety level. Monthly reports will be provided by DFAS to perform the review. The monthly review will also examine the business environment to prevent the account disbursing too much money for required activities or not collecting sufficient amounts to maintain the safety level.

C9.16.3.3. Comprehensive Review. Absent changes to the CAS Surcharge Rate and triggers to the Upper Control and Safety Levels, a comprehensive review of the FMS CAS Cost Clearing Account will be performed every five years, following the completion date of the previous review. This comprehensive five-year review will look at the previous 60 months of rate data and will begin on the month following the End of Month reconciliation of the 60th month. However, based on the financial health of the FMS CAS Cost Clearing Account, and at the discretion of the Director, DSCA, the comprehensive review may be accelerated or delayed to perform an out-of-cycle comprehensive review outside the five-year window. Delays must include justification signed by the Director.

C9.16.3.3.1. Exceptions. When an out-of-cycle FMS CAS Surcharge Rate change has occurred, the comprehensive review will be performed five years after the implementation of the rate change to provide adequate time to analyze the performance of the new rate. When triggers to the Upper Controls or Safety Levels occur, an accelerated/out-of-cycle comprehensive review may be required.

C9.16.3.3.2. DSCA will perform the review and may request participation from outside entities (i.e. Naval Post-Graduate School, private industry, etc.) to provide an independent perspective.

C9.16.3.3.3. This comprehensive review will include an examination of the CAS Surcharge Rate, Upper Control Limits and Safety Levels, and their underlying assumptions. DSCA will analyze the following:

- Expected budget requests versus actual execution from providers
- 5-year projected expenses and workload from providers
- Sales projections from DSCA
- DFAS monthly Cost Clearing Account Report
- Defense Security Assistance Management System (DSAMS) CAS Pricing

C9.17. - Foreign Military Sales Trust Fund Transportation Cost Clearing Account.

C9.17.1. Account Lower Control.

C9.17.1.1. Lower Control General Information. The Foreign Military Sales (FMS) Transportation Cost Clearing Account is a reserve of operating capital sufficient to maintain timely shipment of FMS & Building Partner Capacity (BPC) business through changing business conditions and ensure account solvency. The lower control on the Transportation Accounts ensures the FMS Transportation Cost Clearing Account carries a sufficient balance of Delivery Term Code (DTC) Transportation collections to maintain sufficient balances to meet transportation requirements for FMS shipments containing DTC shipments. The account's lower control also allows DSCA sufficient time to react to significant changes in the account balance if necessary. The account lower control takes into account the historical account balances and expenditures of five years. The FMS Transportation Cost Clearing Account is reviewed annually.

C9.17.1.2. Methodology. DSCA will set and calculate the lower control based on five years of estimated annual account expenditures. A lower control, representing five years of historical annual expenditures and balances is necessary to cover all of the account's possible expenses. The Lower Control will be calculated, documented and approved at the start of the fiscal year and will be forwarded to the Defense Finance and Accounting Service (DFAS) for awareness and coordination with DSCA as needed.

C9.17.1.3. Review and Re-validation of Data Sources. The Lower Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Transportation Cost Charge Account report, the final report of prior year sales.

C9.17.2. Account Upper Control.

C9.17.2.1. Account Upper Control General Information. DSCA recognizes that the agency should have an upper control for the FMS Transportation Cost Clearing Account. An established upper control would be a financial management tool to guard against over collections and ensure the agency does not collect more than it needs to support contract-related activities.

C9.17.2.2. Assumptions. The underlying assumption is that an account upper control, combined with the Lower Control, establishes a management tool for the FMS Transportation Cost Clearing Account. By setting upper and lower bounds of acceptable levels of annual surcharge collections given normal variation, a "control box" alerts the agency to a dramatic change in the operating environment that may require an agency response such as an out-of-cycle comprehensive review to address the amount of surcharge collection being deposited into the FMS Transportation Cost Clearing Account.

C9.17.2.3. Methodology. DSCA will establish the Upper Control using two years of annual expenditures plus an adjustment based on the forecasted amount of change in shipments for subsequent two years, is necessary to cover all of the account's possible expenses. The adjustment factor is determined by looking at prior year growth, Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) inflation factors, and FMS shipment trends.

C9.17.2.4. Review and Re-validation of Data Sources. The Upper Control will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Transportation Cost Charge Account report, the final report of prior year sales.

C9.17.3. Assessments of the Foreign Military Sales Transportation Cost Clearing Account.

C9.17.3.1. Annual Review and Re-validation of Data Sources. The levels will be evaluated through a focused review of the business environment during the first quarter of each fiscal year. This review will be supported by the DFAS end-of-year FMS Cost Charge Account report, legislative proposals, geopolitical environment and the established DTC rates.

For this detailed review, DSCA will analyze the following:

- DFAS Daily Financial Management Ledger balances
- DFAS Monthly Transportation Billing Reports

C9.17.3.2. Monthly Review. A monthly review of the FMS Transportation Accounts will be performed to monitor accuracy and correct allocation of transportation bills provided by DFAS and to ensure the DFAS reconciliation of funds between the accounts is in sync with the daily account balances at the end of the month.

C9.17.3.2.1. Methodology. DSCA will monitor and review the Transportation balances and all transactions monthly. DSCA will provide DFAS and the Military Departments (MILDEPs) with any corrective actions required as a result of the monthly reviews.

C9.17.3.3. Daily Review. A daily review of the FMS Transportation Accounts will be performed to examine if any abnormal transactions have occurred. The daily review is a DSCA management tool that examines daily data to detect, report and correct any abnormal transactions.

C9.17.3.3.1. Methodology. DSCA will monitor the Transportation Account collections and expenditures on a daily basis. DSCA will note any abnormal swings in the accounts and will notify the DFAS and the MILDEPs for their review and possible corrections.

C9.18. - Program Support Charge.

C9.18.1. Commercial Repair and Return. The Commercial Repair and Return (CR&R) Program allows the Army to fulfill repair commitments to the foreign partner via commercial entities. Partner nations who choose to take advantage of the Army's CR&R program will incur a Program Support Charge (PSC). The case line will include Primary Category Code (PCC) 746 and the appropriate Indirect Pricing Components (IPC) for the PSC of 4 percent.

C9.18.2. Simplified Non-Standard Acquisition Program. The Simplified Non-Standard Acquisition Program (SNAP) provides logistics support to foreign partners who require obsolete or unique items not available through the normal U.S. Army supply channels using Simplified Acquisition Procedures. SNAP is funded with a PSC that applies to all procurement transactions under the Program. The case line will include PCC 750 and the appropriate IPC for the PSC of 5 percent.

C9.18.3. Program Support Charge Reports. Every five years the U.S. Army, through DSCA (Office of Business Operations, Financial Policy and Regional Execution Directorate, Financial Analysis and Compliance Division (OBO/FPRE/FAC)), will submit to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) an updated analysis on the percentage rate for both the CR&R and SNAP PSCs, and recommendations on whether the rates should remain the same or change. OUSD(C) is the approval authority for any changes to PSC rates. Additionally, for all PSCs, the U.S. Army will provide DSCA (OBO/FPRE/FAC) an annual report, due no later than November 15 of each year, with the previous fiscal year's year-end data and projections for the current fiscal year and the next three fiscal years.

C9.18.3.1. At a minimum, the CR&R annual report will include the following:

1. Total value of completed billed repairs;
2. Total number of completed billed repairs;
3. PSC recoupment (actuals multiplied by PSC percent);
4. Total completed billed (repairs + recoupment);
5. Manning support costs;
6. Total number of full time equivalents;
7. Surplus/deficit (manning minus recoupment); and
8. PSC percentage.

C9.18.3.2. At a minimum, the SNAP annual report will include the following:

1. Total Shipped Value
2. Total Requisitions Shipped
3. Recoupment (Actuals, includes previous surplus)
4. Sales + Recoupment
5. Support Costs
6. Surplus/Deficit
7. Actual percent of Support of Total Sales
8. Recoupment Factor Charged Based on Actual/Estimate