

August 26, 2024

Cost Accounting Standards Board
ATTN: Mr. John L. McClung
Office of Federal Procurement Policy, Office of Management and Budget
725 17th Street NW
Washington, DC 20503

Submitted via email to: OMBCASB@omb.eop.gov

Subject: Financial Executives International (FEI) Comments on CASB Case No. 2021-02, Conformance of Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP) for Compensated Personal Absence and Depreciation of Tangible Capital Assets

Reference: FEI Letter Dated May 10, 2019, on CASB Staff Discussion Paper (SDP) on Conformance of the Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP)

Dear Mr. McClung,

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

The purpose of this letter is to offer comments pursuant to 41 U.S.C 1502(c) related to CAS Board Case No. 2021-02 published in the Federal Register on June 27, 2024, as an Advanced Notice of Proposed Rulemaking (ANPRM) on the Conformance of the Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP) for Compensated Personal Absence and Depreciation of Tangible Capital Assets.

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

Generally speaking, our position on the ANPRM remains fundamentally unchanged from the referenced FEI-CGB Letter of May 10, 2019. In this letter, the FEI-CGB (i) generally supported the overall CASB CAS/GAAP conformance initiative, (ii) generally endorsed the technical content of the Aerospace Industry Association (AIA) comments in response to the same SDP, (iii) advocated that this conformance initiative will only achieve its stated benefit if CAS elements are eliminated, and reliance is placed on existing GAAP, and (iv) provided cautionary comments whereby the addition of GAAP provisions into CAS would likely run counter to the goals of the conformance initiative, and only lengthen, rather than shorten, the procurement process by creating uncertainty concerning

compliance and CAS administrative requirements (e.g., how are GAAP materiality considerations applied for CAS?), as well as increased administration effort or disputes where there are differences of opinion between outside audit firms and US Government oversight agencies on GAAP compliance.

CAS 408 - Accounting for Costs of Compensated Personal Absence

In the ANPRM, the CASB states in relevant part:

“The Board has provisionally concluded that CAS 408 and the corresponding requirements in GAAP are not materially different. Furthermore, the lack of material noncompliance provides evidence of little risk to the Government should CAS 408 be eliminated. The Board is considering a proposed rule that would eliminate CAS 408 and instead rely on GAAP to achieve the uniformity and consistency required for Government contracting. This action would be consistent with the Board’s guiding principle to eliminate content from CAS where reliance on GAAP would materially achieve uniformity and consistency in cost accounting, without bias or prejudice to either party.”

The FEI-CGB agrees with and endorses this provisional conclusion and recommends the CASB proceed with a Proposed Rule to eliminate CAS 408.

CAS 409 - Cost Accounting Standard - Depreciation of Tangible Capital Assets

In the ANPRM, the CASB states in relevant part:

“[T]he Board has provisionally concluded that most of CAS 409 has become unnecessary to protect the Government’s interests which may be achieved through reliance on GAAP and existing requirements in other CAS Standards and the FAR. Therefore, the Board is considering a proposed rule that would eliminate CAS 409 with the exception of three requirements in CAS 409–50(e)(5), CAS 409–50(j)(1), and CAS 409–50(j)(4), which would be retained.

Because of the limited amount of content that would be proposed for retention, the Board is considering a proposed rule that would relocate the three requirements to other Standards, specifically a new CAS 406–50(g)(1) and (2) and a new CAS 418–50(h), instead of maintaining an entire Standard 409.”

The FEI-CGB (i) agrees with and endorses the provisional conclusion to eliminate CAS 409, and (ii) offers the following regarding the relocation of the three noted exceptions to other Standards.

The ANPRM addresses “General Recommendations. The SDP asked for recommendations of any changes to CAS 409 to conform it to GAAP.”

The CASB goes on to conclude:

“The Board concurs these two requirements in CAS for which equivalent GAAP requirements do not exist need to be retained to protect the interests of the Government and contractors. The Board is proposing to move these two requirements found at CAS409–50(e)(5) and 409–50(j)(1) to CAS 406.”

The referenced FEI-CGB Letter of May 10, 2019, addressed CAS 409-50(e)(5) by stating:

“There are regulatory provisions for a contractor and the government to make agreements. See FAR 31.109(a) – To avoid possible subsequent disallowance or dispute based on unreasonableness, unallocability or unallowability under the specific cost principles at Subparts 31.2, 31.3, 31.6, and 31.7, contracting officers and contractors should seek advance agreement on the treatment of special or unusual costs and on statistical sampling methodologies at 31.201-6(c).”

The referenced FEI-CGB Letter of May 10, 2019, addressed CAS 409-50(j)(1) by stating:

“No corresponding GAAP requirements, however, there is applicable content in FAR.

FAR 31.205-16(a) – Gains and losses from the sale, retirement, or other disposition (but see 31.205-19) of depreciable property shall be included in the year in which they occur as credits or charges to the cost grouping(s) in which the depreciation or amortization applicable to those assets was included (but see paragraph (f) of this [FAR] subsection). However, no gain or loss shall be recognized as a result of the transfer of assets in a business combination (see 31.205-52).

FAR 31.205-16(c) – Gains and losses on disposition of tangible capital assets, including those acquired under capital leases (see 31.205-11(h)), shall be considered as adjustments of depreciation costs previously recognized. The gain or loss for each asset disposed of is the difference between the net amount realized, including insurance proceeds from involuntary conversions, and its undepreciated balance.”

Although the FEI-CGB maintains the elimination of these provisions would not materially impact the rights or interests of the Government and contractors, we would not object to the CASB proposal to retain these provisions by moving them to CAS 406.

The ANPRM addresses “Potential CAS-GAAP Difference: Gains/Losses on disposition within 12 months of transfer.”

The CASB goes on to conclude:

“Although there are a variety of mitigating factors, the Board believes this difference between CAS and GAAP may create an exposure of unknown materiality. Furthermore, should the Board eliminate the CAS requirements for service life, residual value and depreciation method and instead rely on GAAP to achieve uniformity and consistency, it is unclear to the Board what impact, if any, this change to GAAP would have on the magnitude of these gains/losses on disposition. For these reasons, the Board is considering a proposed rule that would retain the requirement in CAS 409–50(j)(4) and move it to new CAS 418–50(h).”

The referenced FEI-CGB Letter of May 10, 2019, addressed CAS 409-50(j)(4) by stating:

“This is a gap identified by the Board,”

Although the FEI-CGB maintains that the elimination of this provision would not materially impact the rights or interests of the Government and contractors, we would not object to the CASB proposal to retain this provision by moving it to CAS 418.

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

Sincerely,

A handwritten signature in black ink, appearing to be 'DKF', with a stylized flourish extending to the right.

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

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