



April 9, 2008

Office of Federal Procurement Policy
725 17th Street, NW, Room 9013
Washington, D. C. 20503
ATTN : Laura Auletta

Subject: Cost Accounting Standard Board Staff Discussion Paper (CAS-2008-01S)

Dear Ms. Auletta:

The Aerospace Industries Association (AIA) member companies appreciate the opportunity to comment on the Cost Accounting Standards Board (CASB) staff discussion paper (SDP) on potential revisions to CAS 403. The SDP poses the question of whether the current thresholds requiring use of the three factor formula for allocating residual home office expenses should be revised.

As the CASB is aware, the current operating revenue thresholds have been in effect since the original promulgation of CAS 403 in December 1972. The AIA member companies believe that due to the substantial inflation experienced over the past 35 years, the operating revenue thresholds clearly should be revised.

Our member companies agree with the CASB Staff's belief that the use of the CPI has the advantage of a simple and quick revision to the out-of-date thresholds while remaining an objective measure of the economic escalation that has occurred since the thresholds were initially promulgated. Our members further agree with the Staff's belief that a Staff Study will require significant time and effort to accomplish with the possibility that such an analysis would not yield useful data for determining more appropriate thresholds.

Using CPI as the index to increase the operating revenue thresholds would be consistent with the CASB's past practice of adjusting thresholds using the CPI index. For example, in the December 12, 2005 Federal Register (Volume 70, Number 237), the CASB's proposed rule to adjust the CAS applicability threshold used CPI as the basis for escalating that threshold. The CASB rule was proposed to implement Section 807 (e) of the National Defense Authorization Act for Fiscal Year 2005 (P.L. 108-375), which provided that the reflection of inflation for acquisition-related dollar thresholds was to "be calculated on the basis of changes in the Consumer Price Index for all-urban consumers...."

AIA members are uncertain as to the accuracy of the assertions made in the Federal Register notice that the number of home offices have significantly increased due to the proliferation of intermediate home offices. Our member companies are not aware of a proliferation of intermediate home offices, nor have they seen any data that supports such a position. Furthermore, the relevance of such a statement is not clear when determining whether or not a 35 year old threshold should be updated for inflation.

With the CASB currently facing several time critical issues like harmonizing CAS with the Pension Protection Act (PPA) and establishing a clarifying definition of "increased costs in the

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Laura Auletta
April 9, 2008

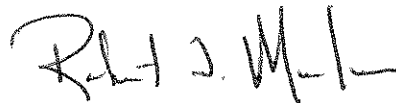
aggregate,” our member companies believe that it is not advisable to undertake a Staff Study in an attempt to determine what the updated thresholds should be when such an independent, objective, and credible solution already exists (i.e., the use of CPI indexing).

Finally, an important point not to lose sight of is the fact that CAS 403.40(c)(1) requires, in part, that residual expenses be allocated to all segments under a home office by means of a base representative of the total activity of such segments. Therefore, regardless of whether or not a home office exceeds the threshold that mandates the use of the three factor formula to allocate residual expenses, a CAS compliant allocation methodology is still very much required.

As requested in the SDP, the Attachment contains our responses to the six specific questions contained in the Federal Register notice.

We appreciate the opportunity to comment on this SDP, welcome the prospect of participating in further discussions, and encourage expeditious action by the CASB in revising the thresholds based on an inflation index. If you have any questions concerning the above, please contact Dick Powers of my staff at (703) 358-1042. Dick can be reached by e-mail at the following address: dick.powers@aia-aerospace.org.

Sincerely,

A handwritten signature in black ink, appearing to read "R. T. Marlow". The signature is stylized and written in a cursive-like font.

Robert T. Marlow
Vice President, Acquisition Policy Division

Attachment

CASB's Question	AIA Response
1. Should the operating revenue thresholds be revised? Why or why not?	Yes, the thresholds should be revised. The thresholds have never been revised and are currently over 35 years old. When CAS 403 was originally promulgated, the thresholds and the operating revenues were both in 1972 dollars. Since promulgation, they have become increasingly out-of-synch as the thresholds are static and operating revenues are stated in current year dollars. As such, without updating the thresholds, the logical nexus between the thresholds established in 1972 based on relative 1972 operating revenues and current operating revenues is lost.
2. If the threshold should be revised, what should be the basis of that revision (e.g., CPI, staff study, other)?	CPI. As stated by the CASB in the Federal Register, the CPI is an objective measure. The CPI also has the advantage of being readily available and an efficient and conservative evaluation methodology which has been used previously by the CASB to index thresholds.
3. What are the advantages and disadvantages of the two alternatives described above?	<p>CPI is readily available and an independent, objective measure.</p> <p>As noted in the SDP, it is believed that the Staff Study will require significant time and effort (perhaps due to its complexity or subjectivity) to accomplish, which would delay a much needed revision of the CAS 403 thresholds.</p> <p>Furthermore, there is no certainty that a Staff Study would yield results that would materially differ or be demonstrably superior to a CPI indexing approach.</p>
4. What type of data is currently available for performance of the staff study?	It is unlikely that data beyond the most recent seven years would be available for the Staff Study. Therefore, full comparability with 1972 may not be achievable. Available data may include company operating revenue, number of home offices, amount of allowable residual expenses, and public company financial data.
5. Is the administrative burden of collecting the data associated with the staff study commensurate with risk?	No, the risk of harm to the government is minimal as the thresholds only apply to residual expenses and if the three factor formula is not mandated, then another broad based allocation method (e.g. TCI) must be used in accordance with CAS 403. Therefore, expenditure of considerable time, effort and resources by the CASB to arrive at a conclusion that may not be better, in theory, than a threshold adjustment based on inflation indexing is not advisable.

<p>6. To what extent does the proliferation of intermediate home offices impact any potential revision of the operating revenue thresholds?</p>	<p>The graduated scale in the CAS 403 three-factor-formula threshold computation is based on the concept that smaller home offices have fewer economies of scale and consequently often have higher residual costs as a percentage of sales. We believe this concept is valid and not dependent on the absolute number of home offices. In addition, it should be noted that when a contractor structures its organization, each business case is analyzed individually and decisions are made to establish the most effective organizational structure to manage the business. This includes the establishment of intermediate home offices. It would be extremely counter productive and noncompetitive to create more or fewer home offices than are necessary to effectively manage operations.</p> <p>In addition, our member companies are not aware of any data which supports the supposition that there has been a proliferation of intermediate home offices since the three factor formula thresholds were established in 1972.</p>
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From: Wong, Raymond
Sent: Tuesday, July 01, 2008 11:20 AM
To: Wong, Raymond
Subject: FW: Additional AIA Comments on a CASB Staff Discussion Paper Addressing Potential Revisions to Revenue Thresholds in CAS 403

Follow Up Flag: Follow up
Flag Status: Red

Attachments: cas0801s.pdf; casthresholds.pdf

From: Dick Powers [mailto:dick.powers@aia-aerospace.org]
Sent: Monday, April 14, 2008 5:43 PM
To: FN-OMB-casb
Subject: FW: Additional AIA Comments on a CASB Staff Discussion Paper Addressing Potential Revisions to Revenue Thresholds in CAS 403

On 4/9/08, AIA submitted comments on the CASB SDP addressing potential revisions to revenue thresholds in CAS 403. See attached letter.

Since that time, a number of member companies have asked AIA to request that the Board make the indexing of thresholds (recommended in our 4/9 letter) retroactive to the date of our 2003 letter to the CAS Board Chair regarding the need for indexing of the CAS 403 revenue thresholds for inflation. See the second attachment. AIA agrees with those members companies and requests that the CASB consider as part of this proposed change to the CAS 403 three-factor formula thresholds a provision for retroactive and ongoing indexing of the thresholds. AIA believes that an interpretation should be added to incorporate the concept of indexing based on materiality, the key concept set forth in the preamble to the original promulgation of CAS 403. Under this concept, one approach that could be taken would be to establish thresholds for dates prior to the date of the proposed revision to this standard, with an interpretation describing application of those index based thresholds by contractors to be compliant with CAS 403.

Dick Powers
for
Robert T. Marlow
Vice President
Acquisition Policy Division
Aerospace Industries Association

From: Dick Powers
Sent: Wednesday, April 09, 2008 4:47 PM
To: 'casb2@omb.eop.gov'
Cc: Suzette Strickland
Subject: AIA Comments on a CASB Staff Discussion Paper Addressing Potential Revisions to Revenue Thresholds in CAS 403

Attached are AIA's comments on the staff discussion paper dealing with proposals to revise the CAS operating revenue thresholds to reflect inflation in the thresholds (from 1973 to 2003) for determining if the a contractor is required to use the three factor formula in CAS 403 to allocate residual home office expenses to segments.

If you have any questions concerning the attached letter or the answers to the CASB's questions in the Attachment to the letter, please contact me at this email address, or call me at 703 358-1042.

Thanks for the opportunity to comment on the SDP.

Dick Powers
Director, Financial Administration
Procurement and Finance
Aerospace Industries Association

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August 26, 2003

Ms. Angela B. Styles
Chair, Cost Accounting Standards Board
Administrator for Federal Procurement Policy
Old Executive Office Building, Room 352
17th Street and Pennsylvania Avenue, NW
Washington, D. C. 20503

Subject: Cost Accounting Standard 403.40(c)(2) Operating Revenue Thresholds

Dear Ms. Styles:

The Aerospace Industries Association (AIA) member companies respectfully request the Cost Accounting Standards (CAS) Board to re-examine the operating revenue thresholds in CAS 403 *Allocation of home office expenses to segments*. Our member companies believe that there is a need to update the fundamental requirement (CAS 403.40(c)(2)) to be complied with by CAS-covered government contractors in determining whether home office residual expenses are to be allocated using the three factor formula. The current operating revenue thresholds have been in effect since the original promulgation of CAS 403 in December 1972. In view of the substantial inflation experienced over the past 30 years, the CAS Board should give immediate consideration to revising the operating revenue thresholds.

For the CAS Board's consideration, the following is a comparison of the current and proposed updated operating revenue thresholds. The proposed update reflects 400 percent inflation (a four-fold increase) based upon the consumer price index during the period from 1973 to 2002 obtained from the U.S. Department of Labor, Bureau of Labor Statistics. The comparison is as follows:

<u>Current Operating Revenue Thresholds</u>	<u>Updated Operating Revenue Thresholds</u>	<u>Applicable Percent for Thresholds</u>
First \$100 million	First \$400 million	0.0335
Next \$200 million	Next \$800 million	0.0095
Next \$2.7 billion	Next \$10.8 billion	0.0030
Over \$3.0 billion	Over \$12.0 billion	0.0020

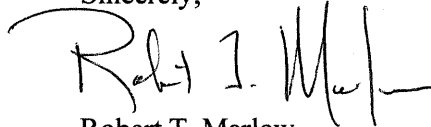
Revising the CAS 403 operating revenue thresholds would be consistent with both the current and prior Under Secretary of Defense letters of May 2, 2002 and September 26, 2000, respectively, to the CAS Board regarding a recommended plan for conducting CAS Streamlining. This plan specifically included a study of the CAS 403.40(c)(2) operating revenue thresholds and concluded that updating the operating revenue thresholds could be implemented with "little effort required". The reasons for concern, the potential solution, and the possible burdens and benefits from any of the proposed approaches to revising the thresholds included in the DoD letters are reflected in the attachment to the letter.

Ms. Angela B. Styles
August 26, 2003
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In addition, increasing the CAS 403 operating revenue thresholds would be consistent with the prior effort that increased the CAS 404 minimum acquisition cost criteria for the capitalization of tangible capital assets. CAS 404 originally had a \$500 threshold in 1973 that was increased to \$5,000 in 1996 (a ten-fold increase).

The Board's timely consideration of this request is greatly appreciated. If you have any questions concerning the above recommendation, please contact Dick Powers of my staff at (703) 358-1042. Dick can be reached by e-mail at the following address: powers@aia-aerospace.org.

Sincerely,



Robert T. Marlow
Vice President
Government Division

Attachment

Copy furnished:

Dr. James P. Bedingfield
Deloitte & Touche LLP Faculty Fellow
Chair, Accounting and Information Assurance Department
University of Maryland
College Park, Maryland 20742

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Fort Belvoir, Virginia 22060-6219

Mr. Anthony M. DiPasquale
Vice President, Government Financial Management (DM-510)
Lockheed Martin Corporation
6801 Rockledge Drive
Bethesda, Maryland 20817

Mr. Eugene L. Waszily
Assistant Inspector General for Auditing (JA)
General Services Administration
18th and F Streets, NW
Room 5308
Washington, D.C. 20405-0002

Attachment

The following is an excerpt from the Under Secretary of Defense letters sent to the CAS Board dated May 2, 2002 and September 26, 2000:

“Regulatory Provision in Question:

CAS 403.40(c)(2), Threshold for requiring use of the three factor formula for allocating home office residual expenses to segments.

Reasons for Concern:

The 1994 joint study by Coopers & Lybrand (C&L) and the Analytical Science Corporation (C&L/TASC), which identified CAS as burdensome, reported that several companies they interviewed suggested that the thresholds contained in CAS 403.40(c)(2) be raised. The threshold percentages and operating revenue thresholds at CAS 403.40(c)(2) were developed by the original CAS Board based upon actual statistics of various companies, and the results of a staff study performed to determine the effect of the Standard on the home office allocations of a number of companies. Neither the percentages nor the operating revenue thresholds used in the computation at CAS 403.40(c)(2) have been revised in the 28 years since the standard was promulgated (December 1972).

Potential Solution:

The CAS Board obtain actual statistics of various companies and conduct a staff study similar to that performed by the original CAS Board. The study should update the thresholds to reflect the impact that economic changes, industry changes, and the advent of acquisition reform have had in the 28 years since the thresholds were established.

Possible Burdens and Benefits from Any Proposed Approaches:

There are two significant benefits from the proposed approach. The first is to relieve administrative burden on companies that currently do business with the government. The second is to remove a potential barrier to entry from commercial companies that may perceive the three-factor formula as a significant Government unique requirement. We do not believe there is any burden from conducting the study, since the benefits of conducting the study outweigh the cost of its performance.

Priority: Lower Importance/Little Effort Required.”