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May 31, 2019

Cost Accounting Standards Board
ATTN: Raymond Wong
Office of Federal Procurement Policy
725 17th Street NW
Washington, DC 20503

Re: Conformance of CAS to GAAP Case Number CASB 2019-01

Dear Mr. Wong:

As an association, NDIA represents more than 1,600 corporate and over 80,000 individual members from small, medium, and large contractors; our members and their employees feel the impact of any policy change made in how the United States equips and supports its warfighters. As requested, we are providing our comments on the referenced Cost Accounting Standards Board (CASB) staff discussion paper on conformance of Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP).

NDIA supports the CASB's initiative to conform CAS to GAAP as required by the NDAA of 2017. In meeting the NDAA requirements, NDIA believes it is important to consider the probable costs of implementation compared to the probable benefits, advantages, disadvantages and improvements anticipated in the pricing and administration of contracts.

Accordingly, NDIA suggests the following conceptual framework and order of priority to meet the NDAA of 2017 requirements:

1. Conform CAS to GAAP where GAAP has changed and any new GAAP rule:

    a. affects the accounting practices used by contractors in determining government contract costs; and
    b. may be inconsistent with CAS.

This category is high priority because of the immediate implications on the ability of contractors to comply with CAS. If a new GAAP rule is inconsistent with CAS, it may lead to inadvertent CAS violations, confusion over CAS requirements, inconsistent treatment among contractors and additional costs to maintain separate accounting practices for GAAP and CAS. The CASB should evaluate new GAAP rules in this category and assess whether they are acceptable under CAS objectives. If a new GAAP rule is acceptable, there is an opportunity to reduce the burden on contractors by conforming CAS

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to GAAP. If a new GAAP rule is not acceptable, an interpretation may be needed to avoid inadvertent CAS noncompliances and achieve consistency among contractors.

The recent changes to GAAP in lease accounting and revenue recognition are examples of GAAP changes in this category. In the Staff Discussion Paper (SDP), CASB recognizes these GAAP changes, i.e., "right of use assets" and "changes to the definition of revenue," as requiring an assessment. NDIA does not believe conforming CAS to GAAP for leases and revenue is difficult to achieve. To conform CAS to GAAP, CASB could issue an interpretation that operating leases, while recorded as assets under GAAP, are excluded from the asset net book values in CAS 403 and CAS 414. CAS 403 could be updated to allow for the use of the GAAP revenue definition as an alternative to the existing definition.

2. Conform CAS to GAAP where the differences between GAAP and CAS are not substantially different but the extra cost of complying with CAS may be significant. In this situation, the additional costs of compliance with CAS is not worth the extra cost. CAS can be conformed to GAAP by deleting the unnecessary CAS requirements.

This category is medium priority because it is not clear yet, based on the SDP and feedback from NDIA members, that many examples exist in this category. CAS 408 is an example where the differences between GAAP and CAS are not substantial. Although the extra cost of compliance with CAS 408 may not be significant, the CASB could simply eliminate CAS 408. The benefit of eliminating a standard in its entirety should exceed the cost of elimination. Likewise, portions of CAS 409, such as the strict record keeping requirements to support asset service lives, may be eliminated.

3. Conform CAS to GAAP where the differences between CAS and GAAP are significant, the CASB intended CAS to be different from GAAP to protect the government's interests, but, upon reconsideration of historical experience and developments in GAAP, GAAP is acceptable under CAS objectives.

This category is low priority because relevant examples, such as CAS 412, CAS 413 and CAS 415, are well known in the contracting community as necessary to protect the government's interests. NDIA supports a study of the potential opportunities to conform CAS to GAAP for this category based on historical data and a renewed interest in the use of commercial practices. However, NDIA believes that such a study is a longer term goal of the CASB. The CAS 416 for requirements for self-insurance may be an example where the additional costs of compliance with CAS is not worth the extra costs.

NDIA offers the following additional comments:

- We agree with the proposed guiding principles whereby the CASB actions can reduce burden on contractors while continuing to protect the interests of the government. We believe the existing allowability requirement in FAR 31.201-2(a)(3) protects the government's interest regarding a contractor's compliance with GAAP. By monitoring changes to GAAP, the CASB could identify

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any developments that are adverse to the government's interests and follow the rulemaking process to protect the government's interests. Therefore, there is no need to modify FAR 31.201-2(a)(3), CAS 9903.201-4, any of the CAS clauses in FAR or any of the access to records provisions.

- We agree that monitoring significant disputes is important in connection with conforming CAS to GAAP and for preventing future disputes involving other CAS requirements.

- We believe that the CASB, as a longer term goal, should eliminate any CAS requirements that duplicate GAAP. Eliminating duplication would reduce conflicts and establish CAS as a pure supplement to GAAP for measuring, assigning and allocating costs.

We have reviewed the comments submitted by AIA and FEI and are in general agreement with these organizations relative to their responses to the SDP on conformance of CAS to GAAP along with the need to prioritize conformance initiatives.

In conclusion, we support CASB's efforts to conform CAS to GAAP pursuant to the NDAA of 2017 and in consideration of the costs of implementation. We believe there is an opportunity to reduce the burden on contractors and the cost of oversight without expanding the government's right of access to records or to reduce contract prices. By focusing on the high priority category, CASB can address the immediate needs of the contracting community and respond to important acquisition reform initiatives such as the Section 809 Panel recommendations on CAS.

We appreciate the CASB's consideration of our comments and are available to provide additional information as requested. If you or your staff have any questions, please contract Corbin Evans, Director of Regulatory Policy, at cevans@ndia.org or (703) 247-2598.

Sincerely,

Contract Finance Committee, NDIA Procurement Division
Corbin Evans, NDIA Director of Regulatory Policy