use assets that were formerly known as operating leases.

* * * * *

■ 9. Section 9904.414–30 is amended by revising paragraphs (a)(4) and (5) to read as follows:

§ 9904.414–30 Definitions.

(a) * * *

(4) *Intangible capital asset* means an asset that has no physical substance, has more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the benefits it yields. It includes assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases.

(5) *Tangible capital asset* means an asset that has physical substance, more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the services it yields. It includes assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases.

* * * * *

■ 10. Appendix A to 9904.414 is amended by revising the paragraph under the undesignated center heading ''Recorded, Leased Property, Corporate,'' to read as follows:

Appendix A to 9904.414—Instructions for Form CASB CMF

* * * * *

Recorded, Leased Property, Corporate

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

* * * * *

■ 10. Section 9904.417–30 is amended by revising paragraphs (a)(1) and (2) to read as follows:

§ 9904.417–30 Definitions.

(a) * * *

(1) *Intangible capital asset* means an asset that has no physical substance, has more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the benefits it yields. It includes assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases.

(2) *Tangible capital asset* means an asset that has physical substance, more than minimal value, and is expected to be held by an enterprise for continued use of possession beyond the current accounting period for the services it yields. It includes assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases.

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[FR Doc. 2024–13806 Filed 6–26–24; 8:45 am]

BILLING CODE 3110–01–P

OFFICE OF MANAGEMENT AND BUDGET

Office of Federal Procurement Policy

48 CFR Part 9904

Conformance of Cost Accounting Standards to Generally Accepted Accounting Principles for Compensated Personal Absence and Depreciation of Tangible Capital Assets

AGENCY: Cost Accounting Standards Board, Office of Federal Procurement Policy, Office of Management and Budget.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Office of Federal Procurement Policy (OFPP), Cost Accounting Standards Board (CAS Board or the Board), is releasing this advanced notice of proposed rulemaking (ANPRM) to elicit public comments on proposed changes to the Cost Accounting Standards (CAS) on conformance to Generally Accepted Accounting Principles (GAAP) related to CAS 408, *Accounting for costs of compensated personal absence,* and CAS 409, *Cost accounting standard depreciation of tangible capital assets,* to GAAP. This ANPRM follows issuance of an SDP 84 FR 9143 (March 13, 2019).

DATES: Comments must be in writing and must be received by August 26, 2024.

ADDRESSES: Respondents are strongly encouraged to submit comments electronically to ensure timely receipt. Electronic comments may be submitted to *OMBCASB@omb.eop.gov.* Be sure to include your name, title, organization, and reference case 2021–02. If you must submit by regular mail, please do so at Office of Federal Procurement Policy, 725 17th Street NW, Washington, DC 20503, ATTN: John L. McClung.

Privacy Act Statement: The CAS Board proposes the rule to elicit public views pursuant to 41 U.S.C. 1502. Submission of comments is voluntary. The information will be used to inform sound decision-making. Please note that all comments received in response to this document may be posted or released in their entirety, including any personal and business confidential information provided. Do not include any information you would not like to be made publicly available. Additionally, the OMB System of Records Notice, OMB Public Input System of Records, OMB/INPUT/01, 88 FR 20913 (available at *www.federalregister.gov/documents/2023/04/07/2023-07452/privacy-act-of-1974-system-of-records*), includes a list of routine uses associated with the collection of this information.

FOR FURTHER INFORMATION CONTACT: John L. McClung, Manager, Cost Accounting Standards Board (telephone: 202–881–9758; email: *john.l.mcclung2@omb.eop.gov*).

SUPPLEMENTARY INFORMATION:

I. Background

On March 13, 2019, the Board published a Staff Discussion Paper (84 FR 9143) to solicit views with respect to the Board's initial assessment of CAS 408 and CAS 409 to conform them, where practicable, to GAAP. Respondents were invited to comment, among other things, on the differences identified between CAS and GAAP, the frequency and magnitude of issues identified with CAS non-compliances, and recommendations of any changes to the Standards to conform them to GAAP.

II. CAS 408 Overview and Conclusion

CAS 408 was initially published September 19, 1974, at 39 FR 33681. The preamble for the original publication of CAS 408 states, ''This Standard deals primarily with the amount and time of recognition of costs of compensated personal absence.'' and'' Detailed criteria for the allocation of costs of compensated personal absence are not included in this Standard.'' [1]

The preamble explained the need for the Standard as follows: ''The most significant problems and issues relate to the amount and timing of recognition of costs of compensated personal absence appear to stem from the reliance of existing procurement regulations on the Internal Revenue Code [IRC] and income tax regulations to govern accounting for these costs.'' The primary disadvantage identified in the initial promulgation was in reliance on the IRC accrual accounting for vacation pay that permitted, but did not require, the accrual of costs and the lack of rules identifying the amount to be accrued. The preamble makes no mention of GAAP rules related to compensated personal absences.

The principal need for the promulgation of the initial CAS 408, which remains nearly unchanged, no longer exists. GAAP has been revised significantly with additional content, since the original promulgation of CAS 408 in 1974.

Furthermore, as explained in greater detail in the response to public comments in Section III, below, a comparison of CAS 408 with pertinent GAAP content revealed significant overlap and nearly completely equivalent requirements. For each requirement in CAS 408, the Board identified that a comparable requirement existed in GAAP, FAR, or other CAS Standard that would protect the Government's interests and promote uniformity and consistency. The alignment is so close as to make CAS 408 nearly duplicative of GAAP. The Board reasoned that where such comparable requirements exist between CAS and GAAP, the CAS 408 requirement could be eliminated. Furthermore, the content related to allocation in CAS 408 for which there is not equivalent content in GAAP, the Board concluded that content in other CAS Standards, such as CAS 418, is adequate to protect the Government's interests.

The Board identified only one potential difference between CAS and GAAP that required further consideration. This difference is the GAAP requirement to accrue accumulated rights in addition to vested rights in the year earned, unlike CAS which only requires the accrual of entitled (*i.e.,* vested) rights. As described below in Section III., the Board has provisionally concluded that reliance on GAAP would materially achieve the uniformity and consistency necessary for Government contracting.

For the reasons stated above, the Board has provisionally concluded that CAS 408 has become unnecessary to protect the Government's interests which may be achieved through reliance on GAAP and other CAS Standards. Therefore, the Board is considering a proposed rule that would eliminate CAS 408 and seeks comment on such action in this ANPRM. This action would be consistent with the Board's guiding principles for conforming CAS to GAAP because it would eliminate CAS content to minimize the burden on contractors while protecting the interests of the Federal Government. Furthermore, the Board's provisional conclusion on CAS 408 would align with the guiding principles to rely on coverage in GAAP when it would materially achieve uniformity and consistency in cost accounting without bias or prejudice to either party, rely on other CAS Standards which may protect the Government's interests, and eliminate CAS coverage no longer necessary.

The Board solicits public comments regarding the treatment of changes to cost accounting practices to conform to GAAP that would be made by this ANPRM, such as assigning the costs to earlier cost accounting periods than CAS 408 permits. Specifically, should these changes be treated as a required change, a unilateral change, or a desirable change in accordance with 48 CFR 9903.201–4(a)(4)(i), (ii), or (iii), respectively. In addition, the Board is interested in views on the anticipated impact, if any, of these changes and whether these changes should be exempted from the required cost impact process.

III. Summary of Public Comments for CAS 408

The Board received seven public comments to the SDP. These comments came from companies, industry associations, professional associations, and individuals. The Board appreciates the efforts of all parties that submitted comments and found the depth and breadth of the comments to be informative.

In addition to the public comments, this ANPRM reflects research accomplished by the Board in the respective subject areas. The Board used the side-by-side comparison of CAS and GAAP requirements to identify any material differences. Unique CAS requirements were assessed for their necessity in protecting the interests of the Government. The Board also examined if the existing requirements in other CAS standards or in other relevant rules may protect the interests of the Government. This ANPRM is issued by the Board in accordance with the requirements of 41 U.S.C. 1502(c).

Responses to specific comments for CAS 408:

Potential CAS–GAAP difference: Accumulated rights. The SDP identified and described one potential difference between CAS and GAAP. The Board observed that CAS limits recording cost in the year earned to employees' who are entitled to payment if terminated, where entitlement is considered earned when an employer would be required to pay the employee for the benefit, in the event of employee termination on a basis other than disciplinary action. The corresponding concept to ''entitlement'' in GAAP is ''vested.'' The Board observed that in addition to vested rights, GAAP provides for cost recognition in the year earned of ''accumulated rights.'' Accumulated rights are those benefits earned during the period that may be carried forward to future periods, although not paid if an employee is terminated. The Board made various queries, among them whether the CAS and GAAP requirements are equivalent.

Comment: Three respondents provided comments to this potential difference identified by the Board. All three stated that the requirements of CAS and GAAP are materially equivalent. Two respondents observed that ''GAAP requires accrual if certain conditions are met, which closely mirror the definition of entitlement. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued; otherwise, as with CAS, the cost of the benefits would be recognized in the year taken on a cash basis.'' The respondents further observed that, ''GAAP requires accrual of employee's compensation for future absences if all of these criteria are met: (1) The employer's obligation is attributable to employee's services already rendered; (2) The obligation relates to rights that either: vest-those rights for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service; or accumulate—those rights that are earned and when unused may be carried forward to one or more periods subsequent to that in which they are earned (although the amount an employee can carry forward may be limited); (3) Payment of the

[1] 39 FR 33681.

compensation is probable; and (4) The amount can be reasonably estimated.''

Response: Both CAS and GAAP require the costs of compensated personal absences to be assigned in the year in which the employee right to payment is earned. GAAP permits, in certain circumstances, the cost of non-vested personal absence costs, where the employee has no right to payment, to be assigned in the year earned but not necessarily paid. In contrast, CAS 408 requires the cost of non-vested personal absences to be assigned in the period in which payment is made. Recording costs in the period earned achieves uniformity and consistency, as well as predictability and stability, because employee rights to payment are generally earned evenly over accounting periods. By comparison, the use of the rights by employees, for example taking vacation time, is generally not even over accounting periods, so if the cost was recorded when used, uniformity and consistency would be compromised.

CAS limits the costs assigned to the period earned to those for which entitlement exists. The term ''vested rights'' in GAAP are those for which the employer has an obligation to make payment even if the employee terminates; thus, they are not contingent on an employee's future service. GAAP, however, also requires that the cost for which employees have accumulated rights be assigned in the year earned. ''Accumulated'' means that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to the extent that it is probable that employees will be paid in subsequent years for the accumulated rights. The Board notes that, like CAS, GAAP specifically requires anticipated forfeitures to be considered in determining the accruals for personal absence costs. Therefore, if accumulated rights have a high forfeiture rate, there would be little net cost accrued in accordance with GAAP. Conversely, if accumulated rights have a low forfeiture rate, by accruing their cost in the year earned in accordance with GAAP requirements, this would achieve a higher degree of uniformity and consistency than CAS with regard to the recognition of costs for compensated personal absences. In either case, whether forfeiture rates are high or low, conformance to GAAP rules from CAS 408 may result in the cost of some non-vested personal absences to be assigned to earlier cost accounting periods than CAS 408 permits. Therefore, the rules for transitioning to a revised cost accounting practice in 48 CFR 9903.201–4 would be applicable. The Board is considering a proposed rule that would eliminate the CAS requirements to record costs when entitlement is earned and 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 coverage in GAAP would materially achieve uniformity and consistency in cost accounting, without bias or prejudice to either party.

Allocation of the cost of compensated personal absence. The side-by-side analysis in the SDP identified two areas with allocation requirements in CAS (CAS 408–40(b), CAS 408–50(e)) with no corresponding content in GAAP. The Board asked if requirements in other CAS addressed this difference.

Comment: Two respondents provided comments to the Board's query. Both respondents believe that other CAS requirements address this difference.

Response: The Board has provisionally concluded that although GAAP does not have requirements for the allocation of the costs to cost objectives, as a practical matter the allocation of these costs to final cost objectives (*i.e.,* contracts) would be required by Government contractors to achieve recovery through contract billings. Most often, the allocation of these costs would be through fringe benefit cost pools whose allocation methods used by contractors would be covered by other Standards, such as CAS 418. The Board is considering a proposed rule that would eliminate the CAS 408 requirements related to allocation. The other CAS requirements, such as those in CAS 418, would be relied on 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 existing requirements in other CAS Standards may protect the Government's interests.

Application of entitlement criteria. The side-by-side analysis in the SDP compared the requirements in CAS with GAAP for the application of the requirements for determining when entitlement is earned. The Board observed that in order to apply GAAP, each compensated absence plan (*e.g.,* vacation time, sick time, military leave) would need to be evaluated separately. The Board queried whether the CAS and GAAP requirements are equivalent.

Comment: Three respondents provided comments to the Board's query. All three respondents stated that the CAS and GAAP requirements are equivalent. Two respondents observed on this equivalency that, ''The rules are written to set out criteria that need to be applied separately to each type of compensated personal absence, as CAS requires.''

Response: The Board has provisionally concluded that in order to determine if entitlement, vesting or accumulating rights exist, each plan would need to be assessed separately whether applying CAS or GAAP because the facts of each plan would be different. While CAS refers to the separate consideration of each plan, GAAP refers to ''individual facts and circumstances'' to reflect the need to assess the requirement to accrue a liability. When the facts of a plan are changed, an assessment regarding entitlement/vesting or accumulation would need to be made to comply with both CAS and GAAP. The Board is considering a proposed rule that would eliminate the CAS requirement to apply CAS by individual plan and 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.

Calculating the accrual amount. The side-by-side analysis in the SDP compared the requirements in CAS with GAAP for the calculation of the accrued liability. The Board made various queries, among them whether the CAS and GAAP requirements are equivalent.

Comment: Two respondents provided comments to the Board's queries. Both respondents commented that ''. . . liabilities under GAAP are recorded based on current wage rates.'' The respondents observed that like CAS, GAAP does allow for the accrual of personal absences based on salary rates expected to be in effect when the employee uses the vacation or sick days, but that this is a less common practice. The same two respondents commented on all of the Board's queries with regard to the CAS requirements for the determination of the employer's liability that CAS and GAAP are equivalent.

Response: The Board has provisionally concluded that consistent with CAS, GAAP requires that the liability be accrued for all compensated personal absence plans when certain conditions are met (*e.g.,* employee has rights to payment, payment is probable and the amount can be reasonably estimated). In addition, both CAS and GAAP require the estimated liability be reduced for the same concept, which is ''anticipated non-utilization'' or ''estimated forfeitures,'' respectively.

GAAP requires the accrual of the current liability in the period. This is commonly calculated using current wage rates. In contrast, CAS is permissive in allowing the liability to be measured consistently using current or anticipated wage rates. CAS provides for calculation of the liability by individual or group and use of sample or other appropriate means, with the critical point being that the liability is ''estimated with reasonable accuracy.'' GAAP requires that the liability be ''reasonably estimated,'' which is consistent with the objective of the CAS language. Although CAS has more content than GAAP, the content provides options without prescribing exactly how the calculation must be done, best exemplified by the phrase ''or other appropriate means.'' Nevertheless, it is clear that the goal of both CAS and GAAP is a reasonably accurate estimate of the liability, which may be achieved through application of either requirements. The Board notes that none of the commenters raised concerns about the potential elimination of this content in CAS or reliance on the less detailed GAAP, relative to calculation of the liability.

The Board is considering a proposed rule that would eliminate the CAS requirements for calculation of the employer's liability 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.

General recommendations and compliance history. The SDP asked for recommendations of any changes to CAS 408 to conform it to GAAP.

Comment: Four of the seven respondents recommended that the Board eliminate the entire Standard. One respondent stated that ''The differences [between CAS and GAAP] are not material.'' Another respondent recommended removal of CAS 408 and allowing contractors to follow GAAP in its place, further observing that ''The standard is unnecessary . . .'' One of the large industry associations observed in their comments that, ''There is virtually no history of CAS 408 non-compliance issues raised at AIA member companies.'' Another professional association similarly observed that ''A survey of FEI–CGB's membership shows virtually no history of contractor non-compliance with CAS 408 . . .''

Response: The Board has provisionally concluded that CAS 408 and the corresponding requirements in GAAP are not materially different. Furthermore, the lack of material non-compliance 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.

IV. CAS 409 Overview and Conclusion

Based on the preamble for CAS 409 published in the **Federal Register** for its initial promulgation on January 29, 1975, depreciation cost was an issue since the 1960's. A number of Contractors at that time primarily relied on the Internal Revenue Code (IRC) to measure depreciation costs. The IRC contained accelerated depreciation methods for tax purposes, and the Board viewed this as inequitable and improper cost accounting because the methods did not match the depreciation expense over the useful life of the asset.

GAAP now prohibits using the accelerated depreciation methods in the IRC for financial reporting purposes if the amounts do not fall within a reasonable range of the asset's useful life. Thus, the principal concern for the promulgation of CAS 409 may no longer exist. GAAP has added significant content since the initial promulgation of CAS 409, while CAS for the most part has not changed subsequent to the initial promulgation. A comparison of the current requirements in CAS 409 with GAAP reveal nearly completely equivalent content. Additionally, FAR includes substantive content regarding the allowability of depreciation costs in certain circumstances that may further protect the interests of the Government.

A comparison of CAS 409 with pertinent GAAP content revealed significant overlap and nearly completely equivalent requirements. For each requirement in CAS 409, the Board identified that a comparable requirement existed in GAAP, Federal Acquisition Regulation (FAR), or other CAS Standard that would protect the Government's interests, with the exception of the requirements at CAS 409–50(e)(5), CAS 409–50(j)(1), and CAS 409–50(j)(4). The alignment is so close as to make CAS 409 nearly duplicative of GAAP. The Board reasoned that where such comparable requirements exist between CAS and GAAP, the CAS 409 requirement could be eliminated. With respect to the three requirements in CAS 409 related to allocation cited above, for which there is no equivalent content in GAAP, the Board concluded that content in other CAS Standards is not adequate to protect the Government's interests.

For the reasons stated above, the 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. This proposed action would be consistent with the Board's guiding principles to eliminate content from CAS where GAAP, other CAS Standards, or other relevant rules may protect the interests of the Government. In addition, the Board provisionally concluded that moving the retained requirement to another Standard, rather than maintain CAS 409 with minimal content, would best achieve the goal of streamlining CAS. The Board is seeking comments on such actions in this ANPRM.

As detailed in the side-by-side analysis in the SDP, and discussed in the details below, so far, the Board has not identified any instance where the elimination of CAS 409, as contemplated, would result in a change to a contractor's disclosed cost accounting practices for government contracts. The Board is interested in comments on this provisional determination, and any instances that have not been considered.

V. Summary of Public Comments for CAS 409

The Board received seven public comments to the SDP. These comments came from companies, industry associations, professional associations, and individuals. The Board appreciates the efforts of all parties that submitted comments and found the depth and breadth of the comments to be informative.

In addition to the public comments, this ANPRM reflects research accomplished by the Board in the respective subject areas. The Board used the side-by-side comparison of CAS and GAAP requirements to identify any material differences. Unique CAS requirements were assessed for their necessity in protecting the interests of the Government. The Board also examined if the existing requirements in other CAS standards or in other relevant rules may protect the interests of the Government. This ANPRM is issued by the Board in accordance with the requirements of 41 U.S.C. 1502(c).

Responses to specific comments for CAS 409:

Potential CAS–GAAP difference: Record keeping related to service lives. The SDP identified the record-keeping to support selection of service life as a potential difference between CAS and GAAP. CAS 409–50(e) specifically requires record keeping adequate to show the age of assets at retirement to support the selection of service lives. GAAP has no explicit requirement for such record keeping. The Board was interested in whether the record keeping, as required by CAS, would be expected to continue for GAAP regardless of the elimination of requirements in CAS 409. In particular, the SDP asked which detailed records contractors would keep and for what purpose, if the requirement in CAS 409 to support service lives with actual historic records was eliminated. The Board made various queries, among them the detailed records contractors would keep and for what purpose if the requirement in CAS 409 to support service lives with actual historic records was eliminated.

Comment: Three respondents responded to this query. All three of the respondents commented that asset records maintained during the ordinary course of business would be expected to remain the same without the CAS requirement. Two respondents provided similar detailed reasoning supporting this conclusion. One stated, ''AIA agrees that during the ordinary course of business most contractors maintain some records of assets through disposition that would include dates the assets were put in use and disposed. Notably, contractors that are not subject to CAS 409 are able to demonstrate allowability of their depreciation costs by keeping records that support allowability. Other factors that would encourage recordkeeping on asset acquisition and disposition include: Enterprise Resource Planning (ERP) system asset modules, tax record keeping requirements, the FAR record keeping clause and GAAP requirements to match expected expenses with period of benefit.''

Response: The Board appreciates these comments and the reasoning provided by the respondents. Although GAAP does not have prescriptive language on record-keeping, contractors would still maintain records for assets, including ready for use and disposition dates, to support audits of financial reporting and tax filings, in particular. At large companies of the size to perform contracts subject to CAS 409, software applications would typically be used for asset accounting, which would standardly contain such information. The Board has provisionally concluded that the explicit CAS requirement for record keeping is unnecessary and is considering a proposed rule that would eliminate the requirement in CAS 409. This action would be consistent with the Board's guiding principle to eliminate content from CAS which is no longer necessary.

Potential CAS–GAAP difference: Selection of service lives. The SDP identified the selection of service life as a potential difference between CAS and GAAP. CAS 409–50(e) requires that estimated service lives be based on supporting records of actual experienced lives of the contractor. GAAP uses the term ''useful life,'' while CAS uses the term ''service life'' with the same meaning. GAAP requires that the cost of an asset be spread over the expected useful life of the asset, but does not require that the expected useful life of the asset be based solely on the contractor's asset experience history. Although actual asset experience history may be a consideration in the selection of service lives in accordance with GAAP, it would not be the only consideration. The Board made various queries, among them the impact to service lives used if the requirement to use estimated service lives based on contractor historical experience was eliminated.

Comment: Three respondents provided comments to the SDP queries for the potential difference between CAS and GAAP in selecting service lives. One respondent observed that ''Under GAAP, the service life of the asset is to be the contractor's best estimate of the useful life and not expressly required (nor blindly constrained) to be based on the contractor's actual asset history. Neither is there a requirement that a contractor justify estimated service lives which are shorter than such experienced lives when the persuasive justification exists for the service life assigned.'' The respondent further observed, ''If a contractor uses arbitrary useful lives with no basis to support the useful life of the asset, they would violate GAAP.''

One of the respondents offered reasoning regarding the use on historic experience in selecting service lives, ''Historic context is important, but its utility is diminished due to rapid advances in technology in modern day. Historically, automobile lives were often impaired by corrosion of ferrous metals, whereas today, more and more automobile parts are made of composites impervious to corrosion. On the other end of the spectrum, a personal computer may have historically had a certain useful life that coincided with its physical durability, over time the pace of technical obsolescence has reduced practical useful lives.'' Another respondent similarly observed, ''Experience may not be a good criterion for future performance. In the past, when most things were mechanical prior to 1970, mechanical items could have a predictable useful life. Now, when items are more digital and perhaps deemed expendable, these items will probably not last as before. Conditions have changed.''

Response: Both CAS and GAAP require consideration of actual asset experience when selecting service lives and reviewing depreciation estimates and making changes to them, as necessary. The Board notes that the existing CAS language provides for some reliance on GAAP records for estimated service lives before actual experience exists, although CAS reverts solely to actual experience once it is available. The Board has provisionally concluded that conditions have changed, in particular with regard to technological advances in a variety of asset categories from automobiles to production equipment, and sole reliance on actual asset history may no longer reflect the best estimate of future service lives for assets.

Both CAS and GAAP require selection of service life or useful life, respectively, which is a reasonable estimate of the accounting periods over which services are expected to be obtained from the use of the asset. CAS and GAAP share a common objective, which is uniformity and consistency. Because GAAP and CAS require adopting a depreciation practice for service lives, following it consistently, and making changes if reviews of actual experience are needed, it follows that compliance with either CAS or GAAP should achieve a materially similar result. The Board has provisionally concluded that based on the changed conditions, development of service lives should include considerations in addition to a contractor's actual asset experience history to reflect a reasonable estimate of the service life. The Board is considering a proposed rule that would eliminate the CAS requirements for determining service lives and 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.

Potential CAS–GAAP difference: Gains/losses on dispositions within 12 months of transfer. The SDP identified as a potential CAS–GAAP difference the treatment of gains and losses for tangible capital assets dispositioned within twelve months of a less than arm's-length transaction. CAS 409–50(j)(4) requires that gains and losses on disposition of tangible capital assets transferred in other than an arm's-length transaction and subsequently disposed of within 12 months from the date of the transfer shall be assigned to the transferor. GAAP has no comparable requirement. The Board made various queries, among them: the frequency of such transfers; the magnitude of the gains/losses experienced on the assets transferred; and how the selection of service life, depreciation method, and residual value mitigate the risk of a significant gain/loss at disposition.

Comment: Two respondents provided comments to the SDP queries. One large industry association commented, ''This CAS 409 requirement seemingly intends to address a contractor seeking to thwart sharing a gain that offsets previous depreciation with the government by a non-arm's-length transfer, such as through a related party at less than fair market value. This action would seem to run afoul of other prohibitions with more serious consequences than those resulting from violating CAS regulations. The U.S. Securities and Exchange Commission (SEC) would find such a practice fraudulent and manipulative. AIA believes that the elimination of CAS 409 and the requirement related to asset dispositions within 12 months of transfer will have no influence on the practices used by contractors that maintain fair and transparent financial reporting.'' The other respondent, a group of asset management experts, suggested eliminating the CAS requirement, observing that such transfers would be ''extremely rare,'' however acknowledging there ''can be reasonable situations where in a plant closing, one from another unit believes an available excess unit would be useful but upon receipt and closer evaluation by others, the item is determined not useful. Essentially a judgment error.'' This respondent similarly observed that ''Any abusive transactions are prohibited and would be unreasonable and unallowable'' and ''Normal internal controls will prevent and detect abusive actions.''

Regarding the magnitude of the gains/losses experienced on such transfers, the large industry association commented, ''In general, selection of an appropriate service life, depreciation method, and residual value for a tangible capital asset would result in a net book value during the asset's lifetime that mitigates the risk of a significant gain/loss at disposition.''

Response: The Board initially identified the treatment of these gains/losses as a potential difference between CAS and GAAP. The Board's concern was that a contractor would transfer an asset between segments just prior to disposition with no purpose other than to recover a loss or avoid sharing a gain. There are several mitigating factors to this concern.

First, regarding the recovery of a loss on an asset transferred to a new segment, the asset may have no causal or beneficial relationship to the work of the new segment and therefore the depreciation cost and any gain/loss on disposition would be unallocable to contracts at the new segment receiving the asset. Thus, the risk of Government contracts being allocated a loss on the disposition of an asset which was never used to provide services for those contracts is mitigated.

Second, most assets depreciate in value rather than appreciate, meaning the likelihood is greater of a loss on disposition than a gain, especially a sizable gain which is most likely to occur for land, which is not depreciable property subject to CAS 409. Thus, the risk of the Government contracts not sharing in a gain on disposition seems low.

Third, for property, plant, and equipment (excluding buildings) if the service lives reasonably align with experience (as required by both CAS and GAAP) and the method of depreciation reasonably aligns with productivity of the asset (as required by both CAS and GAAP), then the net book value of the asset during its lifetime of use should be generally aligned with its fair value, meaning any gain or loss from disposition at fair value would be minimized.

Finally, if an asset is near the end of its useful life and the net book value (remaining depreciable value) is approaching the residual value, the amount of any gain or loss may be immaterial.

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). This proposed action would be consistent with the Board's guiding principles to eliminate content from CAS where GAAP, other CAS Standards, or other relevant rules may protect the interests of the Government. In addition, the Board provisionally concluded that moving the retained requirement to another Standard, rather than maintain CAS 409 with minimal content, would best achieve the goal of streamlining CAS. The Board is seeking comments on such actions in this ANPRM.

Potential CAS–GAAP difference: Residual values. The SDP identified as a potential CAS–GAAP difference the CAS requirement that no depreciation costs can be recognized, which would significantly reduce book value of a tangible capital asset below its residual value. The Board made various queries. Among them these queries, the Board asked how contractors set residual values. Additionally, the Board asked how often for a particular asset the residual value used for CAS and a salvage value used for GAAP are the same.

Comment: Two respondents provided comments to the SDP queries. One large industry association commented, ''Residual value is determined by the value a contractor believes an asset will be worth after its period of use . . . Incorrect residual value would consistently lead to unexpected gains or losses during asset disposition that would indicate incorrect application (thus a violation) of the fundamental GAAP matching principle.''

The same large industry association also observed, ''GAAP (see ASC 360–10–35–4) includes a requirement to deduct the salvage value, which has the same meaning as residual value in CAS, from the value of the tangible capital asset to be depreciated.'' The inference being that if residual value (CAS) and salvage value (GAAP) share the same definition, the amount estimated for each must also be the same.

Response: The Board has provisionally concluded that residual value for CAS and salvage value for GAAP have the same meaning and, therefore, would be expected to be the same estimated amount. Both CAS and GAAP require the residual value or salvage value, respectively, be subtracted from the cost of the capital asset to establish the depreciable value. CAS sets a threshold of ten percent residual value for requiring an adjustment to calculate the depreciable value, while GAAP sets no threshold. In practice, the Board understands most assets are estimated to have a residual or salvage value of zero. Therefore, for most assets, the depreciable value for both CAS and GAAP is the same as the cost of the capital asset. For assets whose residual value is greater than zero, if the depreciable amount is calculated correctly (asset cost less residual cost), the net book value of the asset when fully depreciated would equal the residual value. When net book value of the asset is equal to the residual value no additional depreciation would be recognized, for CAS or GAAP, which would reduce the net book value below the residual value. In addition, should a contractor record any depreciation which would reduce the net book value of the asset below its residual value, FAR 31.205–11(a) would require treatment of that depreciation amount as unallowable.

The Board is considering a proposed rule that would eliminate the requirements in CAS 409 related to residual value and rely on FAR to mitigate the risk of excessive depreciation as an unallowable cost to protect the Government's interests, and instead rely on GAAP to achieve the uniformity and consistency required for Government contracting. This proposed action is consistent with the Board's guiding principles to eliminate content from CAS, where reliance on GAAP would materially achieve uniformity and consistency and other relevant rules, such as the FAR, may protect the Government's interests.

Assignment of costs to cost accounting periods. The side-by-side analysis in the SDP compared the requirements in CAS with GAAP for the assignment of the cost of tangible capital assets to cost accounting periods. The Board queried whether the CAS and GAAP requirements are equivalent.

Comment: Three respondents provided comments to the side-by-side analysis. All three responded that the concepts between CAS and GAAP for assigning tangible capital assets to cost accounting periods are equivalent.

Response: As with CAS, the purpose of corresponding GAAP requirements for depreciation accounting is to distribute the cost of an asset to accounting periods in a systematic and rational manner. In addition, CAS and GAAP share the concept that the depreciation costs be identified with the accounting periods over the expected life of the asset during which services are obtained from the use of the asset.

The approach is the same for both CAS and GAAP, which is to distribute the cost of a tangible asset, less its estimated residual value (CAS) or salvage value (GAAP), over the estimated service life (CAS) or useful life (GAAP), using a method of depreciation that reflects the pattern of consumption (CAS) or productivity (GAAP) of the asset over its life. In addition, when a capital asset is dispositioned, a gain or loss is recognized for both CAS and GAAP.

The Board has provisionally concluded that the fundamental requirements in CAS and GAAP for the concepts of depreciable cost, service lives, and depreciation methods are equivalent. Therefore, the Board is considering a proposed rule that would eliminate the CAS requirements for depreciable cost, service lives, and depreciation methods, 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.

Allocation of depreciation to cost objectives. The side-by-side analysis in the SDP identified two areas with allocation requirements in CAS (CAS 409–40(b), CAS 409–50(k)) with no corresponding content in GAAP. The Board asked if requirements in CAS 402 and CAS 418 addressed this difference.

Comment: Two respondents provided comments to the Board's query. Both respondents believe that other CAS requirements address this difference. One respondent commented, ''While CAS 409–40(b) specifically addresses allocation, it seems CAS 418, that purports to address allocation of all costs, should not be wanting if it alone provided the requirements for allocation of depreciation costs assigned to a period.''

Response: Although GAAP does not have requirements for the allocation of the costs to cost objectives, as a practical matter the allocation of these costs to final cost objectives (*i.e.,* contracts) would be required by Government contractors to achieve recovery through contract billings. The allocation content in CAS 409 is generally covered by applicable CAS requirements in other Standards. CAS 402–30 provides definitions of ''direct costs,'' which are any costs which are identified specifically with a particular final cost objective, and ''indirect costs,'' which are costs not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. These definitions provide a framework for the treatment of depreciation costs as either direct or indirect, as with CAS 409–40(b)(1)–(3).

Furthermore, CAS 402–40 requires that ''All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective . . .'' Therefore, as required in CAS 409–40(b)(1) treating like assets used for similar purposes in the same manner, the application of CAS 402–40 would achieve the same result.

Additionally, CAS 418 provides more detailed requirements for the allocation of direct and indirect costs than exist in CAS 409. For example, CAS 418–40(c)(2) requires the use of a resource consumption or output measure allocation base. The gain or loss on disposition of an asset would be allocated using the same practice for the asset depreciation, as the amounts would be subject to the same direct and indirect cost definitions and treatment under CAS 418, which is required to be followed consistently.

The Board has provisionally concluded that other Standards address the allocation of the depreciation costs and would protect the Government's interests. Therefore, the Board is considering a proposed rule that would eliminate the CAS 409 requirements related to allocation, and instead the other CAS requirements (*e.g.,* CAS 402, CAS 418) would be relied on 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 existing requirements in other CAS Standards may protect the Government's interests.

Selection of depreciation method. The side-by-side analysis in the SDP compared the requirements in CAS with GAAP for the selection of the method of depreciation for tangible capital assets. The Board made various queries, among them whether the selection criteria in CAS and GAAP of matching the pattern of asset consumption to the method of depreciation are equivalent.

Comment: Three respondents provided comments to these queries. All three commented that the selection criteria in CAS and GAAP of matching the pattern of asset consumption to the method of depreciation are equivalent. Both a large industry association and a professional association observed, ''CAS 409 provides criteria for assigning costs of tangible capital assets to cost accounting periods and for consistent allocation of those costs to benefitted cost objectives over the service lives of the assets. GAAP similarly require that the cost of an asset be spread over the expected useful life of the asset in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the asset.''

Response: The Board has provisionally concluded that the requirements of CAS and GAAP are equivalent. CAS already relies on GAAP for selecting the method of depreciation unless the method does not reflect the consumption of services or is unacceptable for Federal income tax purposes. Because GAAP now requires that the method of depreciation satisfactorily reflects the expected productivity of the asset during its useful life, the condition in CAS 409–50(f)(1)(i) would not be met. Both CAS and GAAP generally reject the use of accelerated depreciation using the Internal Revenue Service rules, so the condition in CAS 409–50(f)(1)(ii) would not be met. Thus, any method selected for GAAP would now be acceptable for CAS 409.

The Board is considering a proposed rule that would eliminate the CAS 409 requirements related to the selection of the depreciation method, and instead GAAP be relied on 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.

Changes in service life, residual value, or method of depreciation. The side-by-side analysis in the SDP compared the requirements of CAS with GAAP for reexamination and changes to the service life, residual value, or method of depreciation for tangible capital assets. The Board made various queries, among them whether CAS and GAAP are equivalent.

Comment: Three respondents provided comments to the queries. Two respondents commented CAS and GAAP are equivalent. The third respondent commented CAS and GAAP are mostly equivalent and identified the difference as the impairment reviews that are required by GAAP. This respondent noted the related content in FAR 31.205–11(g)(2), which treats the costs of a write-down from carrying value to fair value as a result of impairment as an unallowable cost in the period recorded.

Response: Both CAS and GAAP require that once adopted, an accounting practice is followed consistently from period to period. In addition, both CAS and GAAP require that service lives and useful lives, respectively, and residual values and salvage values, respectively, be reviewed and changed, as necessary. When a change is made, both CAS and GAAP apply it prospectively and do not require retroactive adjustment to prior accounting periods for existing assets. The Board is considering a proposed rule that would eliminate the CAS 409 requirements for reexamination and changes to the service lives, residual value, or method of depreciation for tangible capital assets be eliminated and instead GAAP relied on to achieve the uniformity and consistency required for Government contracting.

There is currently no content in CAS that addresses the treatment of the costs of a write-down from carrying value to fair value, as a result of impairment. Regarding this treatment of these costs for Government contracting, the Board proposes to continue relying on the existing requirement in FAR 31.205–11(g)(2).

Recognition of gains or losses from disposition. The side-by-side analysis in the SDP compared the requirements in CAS with GAAP for the treatment of changes in service lives, residual value, or method of depreciation for tangible capital assets. The Board made various queries, among them whether the CAS and GAAP requirements for recognition of a gain or loss on disposition in the period in which it occurs are equivalent.

Comment: Three respondents provided comments to these queries. All three commented that the CAS and GAAP requirements for recognition of a gain and loss on disposition in the period in which it occurs are equivalent.

Response: The Board agrees that the measurement of gains and losses for CAS and GAAP are equivalent. Both CAS and GAAP require the recognition of gains and losses related to the disposition of tangible assets and measure the gain or loss as the difference between the carrying value of the asset, also referred to as the net book value or undepreciated balance, and the amount of consideration received, also referred to as proceeds or net amount realized. There are certain circumstances in which gains and losses on the disposition of tangible capital assets are not recognized for CAS, as described in CAS 409–50(j)(2)(i) and (ii). The same language is also found in FAR 31.205–16(f)(1) and (2).

CAS 409–50(j)(2)(i) requires that gains and losses on dispositions in which assets are grouped and that such gains and losses are processed through the accumulated depreciation account. The Board is not aware of any use of this practice by contractors nor did any respondent raise concerns about this requirement. The Board proposes that this CAS 409 requirement be eliminated and GAAP be relied on to achieve the uniformity and consistency required for Government contracting.

CAS 409–50(j)(2)(ii) addresses two circumstances, where an asset is given in exchange as part of the purchase price of a similar asset and where disposition of an asset results from an involuntary conversion. When an asset is given in an exchange, CAS includes the gain or loss in computing the depreciable cost of the new asset. Unlike CAS, GAAP requires recognition of gains and losses for asset exchanges (nonmonetary transactions) when it is clearly evident the fair value of the assets exchanged is not comparable. CAS does not specifically address exchanges of assets with different fair values. Most exchanges would presumably be arm's length transactions, so it seems unlikely that such exchanges would be of assets with considerably different fair values. Therefore, for both CAS and GAAP in most circumstances, the computation of the depreciable cost of the new asset would include the gain or loss. The Board proposes that this CAS 409 requirement be eliminated and GAAP be relied on to achieve the uniformity and consistency required for Government contracting.

The second circumstance addressed in CAS 409–50(j)(2)(ii) is where disposition of an asset results from an involuntary conversion. CAS provides two options for the treatment of a gain or loss on assets replaced as a result of an involuntary conversion (*e.g.,* asset is destroyed by fire). The gain or loss may be recognized in the period of disposition or used to adjust the depreciable amount of the new asset. GAAP generally treats the involuntary conversion of an asset the same as the first CAS option to recognize a gain or loss on the disposition of the old asset in the period in which it occurs and separately treating the replacement as a new asset. Where the same practice can be used for both CAS and GAAP, contractors seem likely to follow the commonly accepted practice, so it seems unlikely that the elimination of the second option to adjust the replacement asset's depreciable value by the converted asset value would cause contractors concern. Notably, no comment letter raised this as a concern. The Board proposes that this CAS 409 requirement be eliminated and GAAP be relied on to achieve the uniformity and consistency required for Government contracting.

Mass or extraordinary dispositions of assets are a rare occurrence. Although CAS acknowledges them, the language is limited to identifying that the contracting parties may negotiate special treatment of the gains and losses for an equitable outcome. GAAP does not include content for mass or extraordinary dispositions. Because these rarely occur and CAS doesn't include prescriptive rules for the treatment, elimination of the CAS language would not impact the treatment of such dispositions, nor inhibit the ability of the contracting parties to negotiate an agreement for government contracting. Furthermore, FAR 31.205–16(g) also identifies that mass or extraordinary dispositions shall be considered on a case-by-case basis. The Board proposes that this CAS 409 requirement be eliminated.

General recommendations. The SDP asked for recommendations of any changes to CAS 409 to conform it to GAAP.

Comment: Four of the seven respondents provided a response to this query. Three respondents recommended that the Board eliminate the entire Standard. One other respondent stated that CAS 409 appears to be a good candidate for conformance, but cautioned that ''CAS 409 provisions covering agreements on special asset lives and accounting for gains and losses on disposition of assets may be needed to provide appropriate results in specific circumstances that may be encountered by the Government and contractors.''

Response: The Board concurs that CAS 409 is a good candidate for conformance because many of the corresponding requirements in GAAP are not materially different from those in CAS. Therefore, GAAP can be relied on for the majority of CAS requirements to achieve the uniformity and consistency required for Government contracting. The Board is proposing to eliminate the majority of CAS 409.

The Board understands the respondent's concern regarding special asset lives to be found at CAS 409–50(e)(5), which reads, ''The contracting parties may agree on the estimated service life of individual tangible capital assets where the unique purpose for which the equipment was acquired or other special circumstances warrant a shorter estimated service life than the life determined in accordance with the other provisions of this 9904.409–50(e) and where the shorter life can be reasonably predicted.''

Furthermore, the Board understands the respondent's concern regarding accounting for gains and losses to be found at CAS 409–50(j)(1), which reads, ''Gains and losses on disposition of tangible capital assets shall be considered as adjustments of depreciation costs previously recognized and shall be assigned to the cost accounting period in which disposition occurs except as provided in subparagraphs (j) (2) and (3) of this subsection.'' Thus, for Government contracting purposes, any gain recognized is limited to the cumulative amount of depreciation recognized on contracts. The result of this requirement is that the credit Government contracts receive for a gain on disposition cannot exceed the cumulative amount of depreciation cost paid by the Government through allocation to contracts. This limitation is also addressed in FAR 31.205–16(d) which limits the gain recognized for government contracting to the difference between the acquisition cost and the undepreciated balance. The Board believes, however, that as this requirement relates to measurement of costs, it should be retained in CAS.

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.

Compliance history. The SDP requested facts and data on the history of CAS 409 non-compliance issues raised and how they were resolved. In particular, the SDP requested the frequency and magnitude of the issues identified on Government contracts. Furthermore, the SDP requested whether the issue raised would have been considered non-compliant with GAAP, other CAS, or FAR.

Comment: Two respondents provided comments in response to these requests. One of the professional associations responded that ''A survey of FEI–CGB's membership shows . . . minimal history of noncompliance with CAS 409. The issues that were identified with CAS 409 generally had immaterial impacts to US Government contracts and were corrected through contract adjustments to the distribution of depreciation costs between accounting periods and contracts (*i.e.,* generally a net zero adjustment).''

One of the large industry associations responded that, ''There is little history of CAS 409 non-compliance issues raised and resolved at individual contractors. Where identified, these issues did not have a significant monetary impact on the Government and could have been identified by other accounting rules (*i.e.,* GAAP, FAR). Of note, the few CAS 409 non-compliances identified by contractors were generally immaterial and were resolved without direct payments to the Government. Instead, they were typically corrected through contract adjustments to the distribution of depreciation costs between accounting periods and contracts. Since adjustments are a redistribution of cost between contracts, there is likely not a significant cost impact to the Government as a whole.'' This respondent provided further analysis of the three categories of compliance issues identified.

The first category of issues is contractors found recognizing multiple years of depreciation during a single year because they failed to recognize depreciation in the first year the asset was put into service. The respondent observed ''This would be a GAAP violation. Such circumstances would also be covered as a non-compliance with CAS 406–40(b).''

The second category of issues is contractors ''found to have selected service lives for assets that were not based on historical experience and contractors could not justify the shorter service lives selected, as required by CAS 409–50(e)(2).'' The respondent observed that ''The use of inappropriate service lives is also a violation of GAAP because it would mislead users of financial statements.''

The third category of issues is contractors not establishing ''appropriate residual value amounts for assets. This condition would result in higher depreciation being recognized for the asset during its useful life, potentially creating a gain to be recognized when the asset was disposition later. Both the depreciation and the later gain would be allocated to Government contracts; however, this influences the timing of cost recognition and reimbursement for the asset cost in an equitable manner.'' The respondent observed that ''GAAP (see ASC 360–10–35–4) includes a requirement to deduct the salvage value, which has the same meaning as residual value in CAS, from the value of the tangible capital asset to be depreciated. In addition, FAR further mitigates the risk of a contractor setting no or too low of a residual value.'' FAR 31.205–11 reads in part, ''[d]epreciation cost that would significantly reduce the book value of a tangible capital asset below its residual value is unallowable.'' The respondent concluded that ''If a contractor depreciated a tangible capital asset significantly below its residual value, the Government's interests are protected by recovering the excess depreciation as an unallowable cost.''

Response: The Board appreciates the effort of this large association and its members to gather and provide this information and analysis. Based on the comments and additional research conducted by the Board, the Board has provisionally concluded that the instances of CAS 409 compliance issues involving significant cost impact to the Government have been limited to rare occurrences related to extraordinary events. Furthermore, the Board has also provisionally concluded that GAAP, FAR, and other Standards may protect the Government's interests in the specific areas in which non-compliance issues have been raised. Therefore, the Board is considering a proposed rule that would eliminate CAS 409, except for the three requirements described above, which would be moved to other CAS standards.

List of Subjects in 48 CFR 9904

Government Procurement, Cost Accounting Standards.

Christine J. Harada,

Senior Advisor Office of Federal Procurement Policy, and Chair, Cost Accounting Standards Board, performing by delegation the duties of the Administrator for Federal Procurement Policy.

For the reasons set forth in the preamble, The Federal Procurement Policy Office proposes to amend 48 CFR part 9904 as set forth below:

PART 9904—COST ACCOUNTING STANDARDS

■ 1. The authority citation for part 9904 continues to read as follows:

Authority: Pub. L. 100–679, 102 Stat. 4056, 41 U.S.C. 422.

■ 2. In § 9904.406–50, add paragraph (g) to read as follows:

§ 9904.406–50 Techniques for application.

* * * * *

(g)(1) When gains and losses are recognized on disposition of tangible capital assets, the gains or losses shall be considered as adjustments of depreciation costs previously recognized and shall be assigned to the cost accounting period in which disposition occurs. The gain to be recognized for contract costing purposes shall be limited to the difference between the original acquisition cost of the asset and its undepreciated balance.

(2) The contracting parties may agree on the estimated service life of individual tangible capital assets where the unique purpose for which the equipment was acquired or other special circumstances warrant a shorter estimated service life and where the shorter life can be reasonably predicted.

Subpart 9904.408—[Removed and Reserved]

■ 3. Remove and reserve subpart 9904.408.

Subpart 9904.409—[Removed and Reserved]

■ 4. Remove and reserve subpart 9904.409.

■ 5. In § 9904.418–50, add paragraph (h) to read as follows:

§ 9904.418–50 Techniques for application.

* * * * *

(h) Gains and losses on disposition of tangible capital assets transferred in other than arm's-length transaction and subsequently disposed of within 12 months from the date of transfer shall be assigned to the transferor.

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