



DEFENSE SECURITY ASSISTANCE AGENCY
WASHINGTON, D. C. 20301

1 May 1976

In reply refer to:
Transmittal No. 10
DOD 5105.38-M

MEMORANDUM FOR RECIPIENTS OF DOD 5105.38-M, MILITARY ASSISTANCE AND
SALES MANUAL - PARTS I, II, AND III

SUBJECT: MASM I, II, and III Transmittal

Attached is MASM Transmittal No. 10 which updates the procedures to
1 May 1976.

Highlights of this transmittal include the Chapters on FMS Policies,
Guidelines and Restrictions, Financial Procedures, Methods of Funding
Codes and Type of Assistance Codes.

Update the portions of your current MASM in accordance with the List
of Changes. Specific changes are indicated by a broken line in the
margin of the chapter.

This transmittal supersedes the following correspondence/messages:

SECDEF message 6991/DTG 232247Z JAN 76. Subject: Projections
of Foreign Military Sales.

DSAA Memorandum I-780/76, 26 Jan 76. Subject: Revised FMS Type-
of-Assistance/Type-of-Financing Codes.

A handwritten signature in black ink, appearing to read "H. M. Fish".

H. M. FISH
Lieutenant General, USAF
Director,
Defense Security Assistance Agency

Attachments

- (1) List of Changes
- (2) MASM Update Materiel



LIST OF CHANGES

Remove and insert the following portions of your current MASM:

<u>Remove</u>	<u>Insert</u>
FOREWARD	FOREWARD
List of Effective Pages	List of Effective Pages
<u>Table of Contents</u> -	<u>Table of Contents</u> -
pages xvii - xviii	pages xvii - xviii
<u>PART III</u> -	<u>PART III</u> -
Chapter B	Chapter B
G-1 - G-2	G-1 - G-2
G-7 - G-10	G-7 - G-10
Chapter J	-----
App A-13 - App A-14	App A-13 - App A-14
App A-17 - App A-19	App A-17 - App A-19

In addition to the above, post the following pen and ink changes:

Part I -

(1) DOD Directives and Instructions - Page 1 - *2000.9 - change the date to January 23, 1974. *2010.1 - change the date to July 23, 1973. Page 2 - *2030.3 - eliminate in its entirety. Page 3 - *2140.1 - change the date to June 17, 1975 and *2140.2 - change the date to January 23, 1974. Page 4 - *4100.37 - change the date to June 7, 1974. Page 6 - *5210.47 - eliminate in its entirety and *5230.11 - change the date to June 19, 1973. Page 7 - *7250.3 and *7250.7 - eliminate in its entirety and *7290.2 - change the date to January 20, 1970. Page 8 - *7420.12 - change the date to July 4, 1973.

(2) Chapter B - Page B-1 - para 1.b.(1) - change "and" to "end".

Part III -

(1) Chapter G - Page G-11 - para 10.d.(2) - eliminate in its entirety.

FOREWORD

The Military Assistance and Sales Manual (MASM) provides in a single volume information and instructions needed at all levels within the Department of Defense to carry out responsibilities of the Secretary of Defense for administering U.S. Military Assistance and Foreign Military Sales Programs and related activities. Subjects unique to these programs are covered in detail; those affecting their administration, but which are of general application to other DOD programs, are referenced and summarized if appropriate.

The MASM is divided into three major parts. The first addresses subjects of general interest that are applicable both to the Military Assistance Program (MAP) and Foreign Military Sales (FMS). The second is devoted to subjects unique to MAP, while the third covers subjects unique to FMS. Material in each part has been arranged into chapters, each of which to the extent practical is complete coverage of a particular subject or function.

User suggestions for improvements to the MASM, both as to coverage and arrangement, are solicited. Such suggestions should be specific and addressed to the Director, DSAA.

Change 10, 1 May 1976

MILITARY ASSISTANCE AND SALES MANUAL

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B	B-1 and B-2	1 March 1976
C	C-1 through C-3	1 April 1976
D	D-1 through D-10	1 April 1976
E	E-1 and E-2	1 July 1974
F	F-1 through F-3	1 July 1974
G	G-1 and G-2	1 December 1975
 <u>PART II</u>		
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B	B-1 through B-3	Deleted
C	C-1 through C-21	1 April 1976
D	D-1 through D-15	1 July 1974
E	E-1 through E-48	1 December 1975
F	F-1 through F-30	1 March 1976
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K	K-1 through K-5	1 March 1976
L	L-1 through L-27	1 August 1975
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F	F-1 through F-10	1 July 1974
G	G-1 through G-13	1 May 1976
H	H-1 through H-7	1 April 1976
J	J-1 through H-3	Deleted
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CHAPTER B

FOREIGN MILITARY SALES POLICIES, GUIDELINES AND RESTRICTIONS

1. Purpose

Supplement information provided in MASM—Part I, DOD Directive No. 5132.3, Department of Defense Policy and Responsibilities Relating to Security Assistance, December 20, 1972 and other related basic directives and instructions governing military export sales activities.

2. Basic Sales and Guidelines

In enacting the Foreign Military Sales Act (FMSA), as amended, the Congress consolidated and revised foreign assistance legislation relating to reimbursable exports.

a. Basic Sales Policy. In this Act, the Congress:

(1) Declared the ultimate goal of the U.S. to be a world free of the dangers and burdens of armaments with the use of force subordinated to the rule of law;

(2) Affirmed the increasing cost and complexity of defense equipment and recognized that there continues a need for international defense cooperation to maintain peace and security;

(3) Established that the United States will facilitate the common defense by entering into international arrangements with friendly countries on projects of cooperative exchange of data, research, development, production, procurement and logistics support to achieve national defense requirements and objectives of mutual concern;

(4) To this end, authorized sales to friendly countries to equip their forces with

due regard to impact on social and economic development and on arms races;

(5) Declared the sense of the Congress that all such sales be approved only when they are consistent with the foreign policy interests of the United States.

b. Military exports sales support specific foreign policy and security interests of the United States. Such sales have in the past improved internal order and increased the prospects for regional stability, thereby reducing the likelihood of direct U.S. military involvement. Standardization of materiel, doctrine, and training is enhanced among our allies and friends. The U.S. production base is maintained, U.S. employment is increased, research and development costs are spread wider, unit costs to the U.S. Services reduced, and forward materiel support is facilitated. The U.S. balance of payments is aided and closer relations, cooperation, and partnership with other nations are engendered.

c. Guidelines

Except where overriding considerations dictate otherwise, the following guidelines will govern Department of Defense sales activities:

(1) Department of Defense sales will support the foreign policy interests of the United States.

(2) Department of Defense will be responsive to foreign requests for sales proposals.

(3) Countries will be encouraged, consistent with economic-financial capabilities, to

make the transition from grant aid to sales.

(4) Wherever practicable, foreign countries will be encouraged to purchase directly from U.S. commercial sources rather than from the Department of Defense.

(5) To the extent practicable, the Department of Defense will assist U.S. industry in making sales directly to foreign governments. Relationships with industry will be forthright, factual, and will avoid all connotation of favoritism.

(6) Unless dictated by overriding logistics considerations approved by the Secretary of Defense, the Department of Defense will not enter into sales arrangements which entail commitments for Department of Defense procurement in foreign countries.

(7) Credit and credit guaranties under the Foreign Military Sales Act will be used only to assist countries in acquiring essential items which cannot reasonably be financed by other means and normally will be used only to finance investment requirements.

(8) Wherever practicable, guaranteed credit will be used instead of direct FMS credit.

(9) Concessionary FMS credit terms (i.e., interest rates less than cost of money to the U.S. Government) will be granted only when determined by the President to be required by the national interest.

(10) We welcome consultation with our friends and allies on research, development, production, and logistic support programs of mutual interest.

d. When procuring for a foreign government, DOD will apply the same contract clauses and contract administration as it would use in procuring for itself, except where exceptions are authorized in the Armed Forces Procurement Regulations. When a sole source procurement requested by a foreign government appears to be motivated by

objectives in conflict with this requirement or with any U.S. legislation, the request must be forwarded to DSAA, which will forward the request to the Department of State for consideration. No Letter of Offer in such cases will be issued without approval of the Director, DSAA.

3. Major Restraints and Significant Recurring Reports to the Congress

The following is a summary of the major restraints and requirements for reporting to the Congress which govern foreign military sales activities, and reflect major requisites which impact on military export sales. Unless otherwise noted, references are to the FMSA, as amended.

a. Major Restraints

(1) Sales will be approved only when consistent with U.S. foreign policy interests, foreign aid purposes as embodied in the FAA, the extent and character of the military requirement, the economic and financial capability of the purchases, with particular regard being given, where appropriate, to proper balance among such sales, grant military assistance and economic assistance as well as to the impact of the sales on social and economic development programs and on existing or incipient arms races (Sec. 1).

(2) Sales and credit guaranties (Secs. 21, 22, 23 and 24) shall not be approved to arm military dictators who are denying the growth of fundamental rights or social progress to their people. The President may waive this limitation when he determines it would be important to the security of the United States (Sec. 1).

(3) The Secretary of State shall be responsible for determining whether there shall be a sale to any particular country and the amount of the sale (Sec. 2(b)).

(4) The President must determine the eligibility of the prospective purchaser on the basis that sales will strengthen U.S. security and promote world peace (Sec. 3(a)(1)).

(5) The purchaser must agree not to transfer purchased items without prior U.S. consent; and the President must report to the Congress before such consent is given (Sec. 3(a)(2)).

(6) Sales, credits, and guaranties shall be cut off for 1 year to any country which seizes or takes into custody or fines U.S. fishing vessels for engaging in fishing more than twelve miles from the coast of that country, unless the President waives the cut off as important to U.S. security or receiving reasonable assurances from the country involved that future violations will not occur and promptly so reports to the Congress (Sec. 3(b)).

(7) Sales may be made only for purposes of internal security, legitimate self defense, civic action, or regional or collective arrangements consistent with the United Nations (U.N.) Charter, or requested by the U.N. (Sec. 4).

(8) No FMS credits or guaranties shall be extended to less developed countries—except Greece, Turkey, Iran, Israel, Republic of China, Philippines, and Korea—to buy sophisticated weapons, such as missiles and jet aircraft for military purposes, unless the President determines that such financing is important to the U.S. national security (Sec. 4).

(9) Sales will be made for the FMS credits repaid only with U.S. dollars (Secs. 21, 22 and 23).

(10) FMS credits must be repaid within ten years after the delivery of the defense articles or the rendering of the defense services (Sec. 23).

(11) Financing of sales of defense ar-

ticles and defense services by any individual, corporation, partnership or other judicial entity doing business in the United States (excluding U.S. Government agencies other than the Federal Financing Bank) may be guaranteed by the USG. Fees shall be charged for such guarantees. An amount equal to 10% of the principal amount of the contractual liability under guaranty shall be set aside as a reserve from funds appropriated under the Act (Sec. 24).

(12) Export-Import Bank financing of sales to economically less developed countries is prohibited (Sec. 32).

(13) A ceiling on grant aid and credit sales combined (excluding training) shall not exceed \$40,000,000 in each fiscal year for African countries. The President may waive this provision when he determines it to be important to the security of the United States (Sec. 33).

(14) FMS credit and guaranty standards and criteria, e.g., interest rates, shall be established by the President in accordance with the foreign, national, security, and financial policies of the U.S. (Sec. 34).

(15) Further sales, credits, and guaranties shall be terminated to any economically less developed country which diverts economic aid, or its own resources to unnecessary military expenditures to a degree which materially interferes with its development (Sec. 35).

(16) The munitions licensing requirement controls the export requirement which controls the export and import of arms, ammunition, and implements of war, including technical data relating thereto remains in effect (Sec. 414, Mutual Security Act of 1954, as amended).

(17) Cash received from FMS and from repayments of FMS credits shall not be used for financing new credits or guaranties (Sec. 37).

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(18) Arms control consequences must be taken into consideration when evaluating any FMS sale (Sec. 42(a)(3)).

(19) FMS funds may be used for procurement outside the U.S. only if the President determines that such procurement will not result in adverse effects upon the U.S. economy or the industrial mobilization base (Sec. 42(c)).

(20) Provisions of Atomic Energy Act and 10 USC 7307 (requiring separate legislation for major ship loans and sales) are unaffected by the FMSA (Sec. 44).

(21) Consistent with its resources and the situation prevailing in-country, the MAAG is responsible for supervising and reporting on the utilization by the foreign country of defense articles and services acquired through FMS.

(22) Any foreign country which hereafter uses defense articles or defense services furnished under the FMSA, in substantial violation of any provision of that Act or any agreement entered into under that Act, shall be immediately ineligible for further cash sales, credits or guarantees until such time as the President determines that such violation will not recur, and that, if such violation involved the transfer of sophisticated weapons without the consent of the President, such weapons have been returned to the country concerned (Sec. 3c and 3d).

(23) Sale of defense articles, defense services or training to foreign organizations or units, including foreign police forces, will not be made unless such organizations or units are a part of the national defense forces under the direction and control of the Ministry of Defense. Any requests for exceptions to this policy should be referred to DSAA for decision. Also, prior approval of DSAA is required for the sale of defense articles, defense services or training to foreign orga-

nizations or units that are under the direction and control of the Ministry of Defense if they are engaged in on-going civilian police functions.

b. Significant Reports to the Congress

(1) Quarterly reports of all new Letters of Offer to sell any defense articles or defense services under the Act, if such offer has not been accepted or cancelled (Sec. 36(a)).

(2) Quarterly cumulative reports of all offers to sell that have been accepted during the fiscal year in which the report is submitted (Sec. 36(a)).

(3) Quarterly cumulative reports of the dollar amounts of sales under direct credits and guaranty agreements made before the submission of each quarterly report and during the fiscal year in which such report is submitted (Sec. 36(a)).

(4) Projections of the cumulative dollar amounts of sales under direct credits and guaranty agreements to be made in the quarter of the fiscal year immediately following the quarter for which the report is submitted (Sec. 36(a)).

(5) Prior notification of the impact on employment and production in the United States of a proposed co-production or licensed production abroad under direct credit or guaranty (Sec. 42(b)).

(6) Advance notification of any Letters of Offer in the amount of \$25,000,000 or more. Further, the Letter of Offer shall not be issued if Congress, within 20 calendar days of receipt of such notification, adopts a concurrent resolution stating in effect that it objects to such proposed sale, unless the President in his notification to Congress states that an emergency exists which requires such sale in the national security interests of the United States (Sec. 36(b)). See Chapter C, paragraph 14 for processing LOAs in the amount of \$25 million or more.

CHAPTER G

FINANCIAL PROCEDURES

1. Purpose

This chapter provides a general description of the financial principles and procedures which apply for various FMS transactions. It is designed to provide an overview of FMS financing and the responsibilities of concerned activities. Detailed guidance on the financial functions of pricing, preparation of billings, and accounting is included in DOD Instructions 2140.1, 2140.3 and 2110.29.

2. Basic Principles

a. Recovery of Costs

The goal of FMS management is to conduct the FMS program at no cost to the US Government, while insuring prompt and complete service to the customer nation. Achievement of this goal requires a thorough understanding of procedures for pricing items or services furnished, administering FMS cases, and reporting of deliveries of materiel or services. The DD Form 1513 Offer and Acceptance contract makes it mandatory for the purchaser to pay for the full value of the transaction, regardless of terms of sale specified for the individual case. The single exception to the principle of total contract cost recovery is the fixed price concept included in Section 22 of the FMSA.

b. Administration of Cash Sales Program

(1) Separate trust funds (account XX-11X8242.XX) have been established for each Military Department to account for payments received from customers and disbursements to suppliers for FMS cash sales. These funds can be either cited directly on

contracts for FMS items for that customer, or can be used to reimburse Military Department appropriations for deliveries (or progress payments made) of items initially procured by those appropriations.

(2) Each Military Department has established a central office to dispatch billings to, and receive payments from, FMS customers. This provides the customer with a single source to which payments can be made, and to which queries concerning these payments can be addressed.

(3) Cash payments deposited to the customer trust fund, other than for cash-in-advance sales, are based on requests for funds or billings submitted by the Military Department. Requests for funds under a dependable undertaking transaction will be submitted so as to insure receipt of customer payments in advance of delivery or contractor requirement for funds, regardless of whether Military Department appropriations or trust funds are cited on procurement contracts. Billings for Foreign Military Sales under 120 day payment transactions should be submitted at time of delivery. The accumulation of large unexpended balances in customer trust accounts, for substantial periods, should be avoided.

(4) Cash payments often will be received, for an individual FMS case, which are in excess of the final value of that particular case. With customer approval, these funds can be retained in the customer's trust fund and applied against other FMS cases. Upon customer demand, however, these overpayments will be refunded at the time the FMS case is closed, provided there are no collection delinquencies for other FMS cases for that customer.

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c. Administration of FMS Credit Program

(1) The FMS credit appropriation provides initial funding of FMS or commercial sales under medium-term credit terms. Annual appropriation requirements are defended before Congress by OSD/DSAA. The appropriation is administered by DSAA.

(2) Customer payments of principal and interest, for items received under medium-term credit sales, are based upon the terms of individual credit agreements.

d. Preparation and Implementation of DD Form 1513 Letters of Offer

Military Departments are responsible for preparing DD 1513's and for establishing estimated prices and availabilities of defense articles and services offered for sale thereon. Military Departments are responsible for negotiating terms of sale for cash sales, in accordance with policy guidance provided by DSAA. They are responsible for establishing management systems necessary to insure prompt implementation of FMS cases, including those systems required to finance, account, and report accomplishment for each individual case.

3. Financing and Billing for Cash Sales

a. Cash in Advance Terms of Sale (Type of Assistance Code 3)

Under these terms, the customer payment is made at the time of acceptance of the DD 1513 Letter of Offer. The amount of payment is the entire estimated value of the FMS case, as shown on the DD 1513. The payment satisfies the customer liability for the transaction if the final value (i.e., final cost) of the case is the same as that estimated in the Letter of Offer. The customer is liable, and will be billed, to pay any costs which are in excess of those originally esti-

mated on the DD 1513. Overpayments, which may be caused by a reduction in costs from those estimated in the DD 1513, will be processed in accordance with para 2b(4) above. Sales of items from either defense stocks or new procurement can be transacted under these terms.

b. 120-Day Payment Terms of Sale (Type Assistance Code 5)

120-day payment terms may be offered for the sale of items which will be furnished from defense stocks or which require defense procurement. This type of assistance code can only be authorized by the Director, DSAA, when it is determined to be in the best interests of the United States, and can be applied to an entire case or only to specified items to be delivered under a case. Billings will be sufficiently prompt to permit customer payments to be received within a reasonable period not to exceed 120 days after the end of the month in which delivery of materiel or performance of services occurred.

c. Dependable Undertaking Terms of Sale (Type Assistance Code 4)

(1) Dependable undertaking terms can be applied for sales from both defense stocks and new procurement. Applied to sales from defense stocks, these terms commit the customer to make payments by the time FMS items are delivered, rather than to pay cash either with the order or within 120 days after delivery. Applied to sales from defense procurement, the terms commit the customer to make payments at such time and in such amounts as are required to meet all payment requirements of the contract (including cancellation costs), in advance of the time such payments are due.

d. Processing Payments and Billings for Repayments of Principal and Interest

(1) Upon receipt of the promissory note and supporting documentation, Comptroller, DSAA verifies that:

(a) The purchase agreement against which payment is requested has been authorized.

(b) The promissory note is correctly filled out.

(c) Unliquidated obligations under the credit agreement are sufficient to permit expenditure.

(d) The standard form 1034 has been properly filled out in quadruplicate and that proper certification is made.

(2) Comptroller, DSAA then causes an expenditure of DOD direct credit funds, issuing separate checks directly to the contractors concerned.

(3) Billings for repayment of principal and interest are processed in accordance with 4h above.

e. Reporting of Transactions

(1) DSAA Comptroller assigns FMS case designators to identify these commercial transactions in the DSAA(AR) 1100 reporting system. To the extent possible, a separate case designator will be assigned to each contract which is to be paid from DOD direct credit funds.

(2) DSAA is responsible for reflecting the FMS case in the reporting system. The value of the case will be the estimated final value of the contract or transaction involved.

(3) Deliveries against each case will be reflected in the amount of disbursements made from DOD direct credit funds.

(4) When no further disbursement action against the case is contemplated, DSAA will take the action required to reflect the case as final in DSAA(AR) 1100 report records.

(4) FINCISCOM will advise, as a part of its report, when disbursements against the case are complete and no further action

against the case is contemplated. DSAA will take the action required to reflect the case as final in DSAA(AR) 1100 report records.

7. Commercial Contracts Financed by Guaranty of Private Credit

This method of financing is authorized under Section 24 of the FMSA; this paragraph applies to contracts executed directly between the customer and the supplier. Responsibilities for executing agreements are the same as those included in paragraph 5a above. Procedures for routing and payment of contractor billings are determined by negotiation among the customer, the supplier, and the source of private credit. DOD financial responsibilities are those agreed in the guaranty agreement between the DOD and the lender, i.e., those required to guaranty the loan.

8. Processing Foreign Military Sales under Credit Agreements Executed Prior to April 1972

a. General Explanation

(1) This paragraph explains those procedures normally used to process credit sales authorized by credit agreements executed prior to April 1972. Legal authority for these sales is included in:

(a) Section 23 of the FMSA for credit agreements executed subsequent to 30 June 1968. These sales are financed by the foreign military sales appropriation, account 11*1082.

(b) Section 524 of the Foreign Assistance Act of 1961, as amended, for credit agreements executed prior to 1 July 1968. These sales are financed by the former foreign military sales revolving fund, now termed liquidation of foreign military sales fund, account 11X4117.

(2) DODI 2110.29 establishes general policies for administering these credit agreements and provides detailed instructions for administering the accounts mentioned above.

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(3) Variations to the procedures outlined below have been published by individual letters, as required to implement extraordinary transactions. These letters remain in effect.

b. Execution of Credit Agreements

(1) DSAA is responsible for negotiating all credit agreements with foreign customers. This includes determining the defense articles and defense services to be furnished, credit limits, and terms of repayments and interest charges. It is responsible for obtaining apportionments of the foreign military sales appropriation (account 11*1082); apportionments are not required for the revolving fund (account 11X4117). DSAA obligates these funds based upon signed credit agreements and allocates obligational authority, as required, to the Military Department(s) responsible for supplying the items and services covered by the credit agreement.

(2) DSAA previously has assigned an executive agent for each credit agreement which involved more than one Military Department. However, the functions previously performed by the executive agent now have reverted to Comptroller, DSAA. These responsibilities are specified by individual letter and include:

(a) Preparing promissory notes, forwarding these to the customer, and receiving signed notes from the customer.

(b) Submitting periodic billings to the customer for repayments of principal and interest based upon the terms of the credit agreement and the signed promissory notes received from the customer.

c. Processing DD 1513 Letters of Offer and Acceptance and Obtaining Financing

The Military Department involved prepares DD 1513's for the items covered by the credit agreement. Terms of sale in the DD 1513 cite the applicable credit agreement. The Military Department then requests a transfer of obligational authority by the Comptroller, DSAA, from the ap-

propriate credit account, to the extent that sufficient obligational authority has not previously been allocated to the Military Department. The funds, when received, can be cited for direct expenditures to suppliers or can be reserved to reimburse the appropriate military department appropriation for progress payments/deliveries made.

d. Coding of Transactions in the DSAA(AR) 1100 Reporting System

FMS cases financed from credit agreements must bear type of finance code Z in the DSAA(AR)1100 reporting system and in subsidiary military department systems. The basis for recording finance codes is the terms of sale of the DD 1513, or an approved customer request to revise terms of sale for a given DD 1513 from cash to credit terms.

e. Processing of Payments of DOD Direct Credit Funds

The Military Department responsible for administering the FMS case disburses DOD direct credit funds (account XX-11*1082 or account X-11X4117, as appropriate) as contractor costs are incurred or as deliveries of items are made. The military department accounting and billing office then:

(1) Forwards periodic statements of account to the customer which reflect costs incurred for the FMS case(s) under the given credit agreement.

(2) Advises the Comptroller, DSAA, of the amounts and dates of disbursements of DOD direct credit funds.

f. Processing of Promissory Notes and Billings for Repayment of Principal and Interest

(1) Based on information provided under paragraph 8e(2) above, the Comptroller, DSAA prepares promissory notes and forwards them to the customer for signature and return.

(2) The Comptroller, DSAA is responsible for sending all billings to the customer for the repayment of principal and interest under the terms of the credit agreement.

(3) The customer is instructed to forward all payments of principal and interest to Comptroller, DSAA, which receives these payments and deposits them to appropriate accounts of the U.S. Treasury.

9. Closing Foreign Military Sales Cases Financed under Credit Agreement Executed Prior to April 1972

a. Applicability

This applies to FMS cases financed from long-term funds under the terms of credit agreements executed prior to April 1972. These cases are reflected under type of finance code Z in the DSAA(AR)1100 reporting system and in subsidiary military department systems.

b. Purpose

(1) Cash sales cases, and those cases financed from credit sources under the provisions of paragraph(s) 4 and 5, are considered closed when collections of funds for the cases into the customer trust fund are equal to the final value of material/services delivered to the customer for that case. Past procedures have stipulated that FMS credit cases be held open until sufficient repayments had been collected against the applicable credit agreement to be applied to individual FMS cases in the total value of deliveries for those cases. Accordingly, some cases remained in an open status for years after final supply action was completed.

(2) The purpose of this procedure is to separate management of individual FMS cases from the parent credit agreement. This makes it possible to close out cases promptly after all items and services have been delivered, necessary adjustments have been made, and final accounting statements have been issued to the customer.

c. Procedures for Closing Cases

The Military Department responsible for implementing the FMS case will not report

collections against the case in the DSAA (AR) 1100 report, until deliveries are completed. At the time the FMS case is fully delivered (i.e., supply complete), final pricing adjustments are made, and all disbursements from the appropriate credit transfer account have been made for the case, the Military Department responsible for implementing the case will:

(1) Insure that the value of item detail for the case is adjusted to equal the final delivered value for the case.

(2) For purposes of reporting only, make the value of collections for the case in the DSAA(AR) 1100 report to equal the final delivered value as reported in the DSAA(AR) 1100 report.

(3) Issue a final accounting statement for the case to the customer. Do not include any collection information on the statement. Include the following on the face of the statement:

"This case is financed under the terms of credit agreement (number), dated (date of credit agreement). (Executive Agent) will issue periodic billings for principal and interest, under the terms of the credit agreement, to cover costs of this and all other FMS cases financed under the credit agreement."

(4) Send a copy of the final accounting statement to the executive agent for the credit agreement.

(5) To ensure that cases will be reflected as closed in the DSAA(AR) 1100 reporting system, the following checks should be made:

(a) Ensure that each detail record (RSN) reflects deliveries (quantity and value) equal to the purchase information contained in that record and that each record contains a completed line code (c).

(b) Ensure that the total value of all purchases in a case are within \$1 of the case value contained in the case record.

(c) Ensure that the collections are entered in fields to coincide with the fields used to enter case values (e.g., cash, DOD credit, etc.) and that in each instance collections are within \$1 of case values.

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(d) Ensure that the record count submitted initially agrees with the number of detail records on file.

(e) If (1)-(4) above are completed, the case status should be C. The final action required at that time is to submit a card A to enter case status F.

(6) Under these procedures, there is no requirement for the Military Department involved to distribute principal repayment collections to individual FMS cases.

d. Processing Discrepancy Report Credits

All outstanding discrepancy reports will be processed against a case prior to closing the case and, as long as the FMS case is open, the discrepancy report adjustment will be recorded against the affected case. When the affected case has been closed, the adjustment will be recorded against the trust fund account of the customer.

10. Multiple Sources of Financing

a. Reasons for Using Multiple Sources of Financing

(1) Customers occasionally finance major sales partially from cash and partially from credit sources. The two primary reasons for use of multiple financing are:

(a) The customer desires to pay cash for the transactions to the maximum extent possible, but must obtain partial credit financing because of inability to pay for the entire transaction on cash terms.

(b) The customer desires to utilize credit for the transaction to the maximum extent possible, but cannot obtain approval for DOD direct credit financing for the entire amount due to insufficient funds in the FMS credit appropriation or for policy reasons.

(2) In either event the customer is obligated to pay cash, under dependable undertaking terms of sale, for all costs of the sale which exceed the amount of credit authorized in the purchase agreement for the transaction.

b. Type of Finance Coding Required for Cases Financed Under Credit Agreements Executed Subsequent to March 1972

(1) FMS cases should be coded with type of finance code Z to the extent that credit financing has been authorized by a purchase arrangement. The difference between the value of the total case and the value of credit financing authorized should be coded type of finance code 4.

(2) FMS cases for which full credit financing has been authorized by a purchase arrangement should be coded type of finance code Z in their entirety, even though the credit may be extended partially under DOD direct credit and partially under private guaranty credit.

(3) The type of financing code reflected in the 1100 data base should be kept current so that it reflects the method of payment selected by the purchaser. In the event a shift is made from credit to cash, cash to credit or between credit arrangements the financing code(s) must be changed accordingly.

c. Criteria for and Routing of Billings for Cases Financed under Credit Agreements Executed Subsequent to March 1972

Billings for multiple financed FMS cases should be prepared and routed as if the cases were financed under normal dependable undertaking terms. The customer has the option to satisfy each billing by paying cash, by obtaining payment via guaranty credit, or by obtaining payment from DOD direct credit funds.

d. Type of Finance Coding Required for Cases Financed under Credit Agreements Executed Prior to April 1972

FMS cases should be coded with type of finance code Z to the extent that credit financing has been authorized in accordance with the terms of sale of the DD 1513. The difference between the value of the total case and the value of credit financing authorized should be coded type of finance 4.

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- S. Lights and Fixtures—FSC 6210, 6230
- T. Instruments and laboratory equipment, other than aircraft—FSG 66, (Exc 6610)
- X. Industrial machines—FSG 36
- Z. Other support equipment
- 7. Other Support Equipment:
 - A. Medical/Surgical Equipment—FSC 6515
 - B. Dental Equipment—FSC 6520
 - C. X-Ray Equipment—FSC 6525
 - D. Hospital Equipment—FSC 6530, 6640
 - E. Chemistry/Laboratory—FSC 6630, 6640
 - F. Laundry & Dry Cleaning Equipment—FSC 3510
 - G. Shoe Repair Equipment—FSC 3520
 - H. Service & Trade Equipment—FSG 35 (Exc 3510, 3520)
 - K. Office Machines—FSG 74, 75
 - L. Pumps and Compressors—FSC 4310, 4320
 - M. Plumbing and Heating Equipment—FSG 45
 - N. Engines—FSG 28
 - P. Prefab and Portable Structures—FSG 54 (Exc 5420, 5440)
 - Q. Mine Drilling Equipment—FSC 3820
 - R. Refrigeration and Air-Conditioning Equipment—FSG 41
 - S. Firtighting Equipment—FSC 4210
- K. SUPPLIES
 - 00. Other Supplies:
 - Includes industrial and construction supplies, tools and test equipment, raw materials other than ammo, office supplies, clothing and textiles, medical supplies, machinery and shop equipment. Excludes repair parts.
 - 1. Clothing and Textile Supplies:
 - A. Clothing, textiles and individual equipment—FSG 83, 84
 - 2. Medical Supplies:
 - A. Drugs, biologicals and surgical dressings—FSC 6505, 6510
 - Z. Other medical supplies—FSG 65 (Exc 6505, 6510)
 - 3. Subsistence:
 - A. Human subsistence—FSG 89
 - 4. General Supplies:
 - A. Hand and measuring tools—FSG 51, 52
 - Z. General supplies
 - 5. Industrial Supplies:
 - A. Industrial supplies
 - 6. Fuels, Oils and Chemicals
 - A. Jet fuel—FSC 9130
 - B. Aviation gasoline—FSC 9130
 - C. Automotive gasoline—FSC 9130
 - D. Diesel fuel—FSC 9140
 - E. Navy special fuel oil—FSC 9140
 - F. Chemicals—FSG 68
 - G. Solid fuel—FSC 9110
 - H. Fuel gases
 - Z. Other petroleum, oil and lubricants
- 7. Construction Supplies:
 - Z. Construction supplies
- 8. Automotive Supplies
 - A. Automotive supplies and equipment parts
- 9. Automotive Supplies and Equipment Spares:
 - X. Automotive spare parts
- L. SUPPLY OPERATIONS
 - 1. Transportation Costs:
 - A. Inland transportation
 - B. Ocean transportation
 - C. Air transportation
 - D. Parcel Post
 - 2. Packing, Crating, Handling, Port Loading and Unloading Costs:
 - A. Packing, crating and handling
 - B. Port loading
 - C. Port unloading
 - 4. Storage and Maintenance of FMS Stockpiles:
 - A. Storage and maintenance, FMS Materiel
 - 6. Logistic Management Expenses:
 - A. Logistic Management Expenses
- M. MAINTENANCE OF EQUIPMENT
 - 00. Repair and Rehabilitation
 - 1. Contract Technicians and Contract Services:
 - X. Technical assistance
 - 2. Repair and rehabilitation of Equipment:
 - A. Repair and rehabilitation of aircraft and aircraft engine overhauls (includes aircraft IRAN).
 - C. Repair and rehabilitation, other
 - X. Overhaul of ships
- N. TRAINING
 - 00. Training
- P. RESEARCH AND DEVELOPMENT
 - 00. Research and Development
- Q. CONSTRUCTION
 - 00. Construction
- R. SPECIAL ACTIVITIES
 - 00. Other Services
 - 4. Studies and Surveys
 - A. Studies and surveys
 - 9. Other Special Activities:
 - A. Special activities or industrial facilities
 - B. Non-specific requirements

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- C. Open end FMS case
- D. Royalty payments
- E. Loan Fees

S. FOREIGN MILITARY SALES

- 00. Credit Sales
 - 4. Commercial Sales
 - A. Commercial sales
- 5. Interest Guarantee
 - A. Interest Guarantee

- U. Foreign Military Sales Order No. 1 (FMSO 1)

21. Implementation Date

The date when supply action on the FMS case is initiated. This date is most often concurrent with the acceptance date but could occur subsequent to that date if the DD Form 1513 does not contain, at the time of signing, sufficient authority for procurement of items therein. Example, a required down payment does not accompany the DD Form 1513. In the FMS reporting system, the date is expressed by a five digit numeric code. The first two digits are the calendar year and the third through the fifth digits express the nominal date.

22. Implementing Agency Code

The implementing agency code is a single digit alpha code identifying the military department or agency which has made the sales on behalf of the U.S. Government. In addition, a code is provided for the Office of the Secretary of Defense to be used for documenting certain financial transactions which are performed at that level. Codes are as follows:

Code	Implementing Agency
B	Department of the Army
D	Department of the Air Force
P	Department of the Navy
Q	DSAA
R	DSA (Defense Supply Agency)
S	Commercial

23. Item Count

The number of line items shown in DD 1513 which make up a single case. One detail record is established in the FMS master file for each line item. A three digit numeric code is used in the FMS reporting system for the count (e.g., 008). NOTE: Item count

is optional—it is recorded if reported but not used by DSAA.

24. Letter Of Request (LOR)

A letter from a country requesting materials and/or services which will lead to the preparation of a DD Form 1513. The LOR is the document used to initiate the entry of a Q card into the LOR/FMS system.

25. Method of Funding Code

A single numeric digit used to identify the types of financing of Foreign Military Sales cases in a more precise fashion than is possible with type of assistance code alone.

Code	Method of Funding
1.....	Cash Sale. Used when the entire case is financed from cash made available directly by the sales recipient, either on the basis of cash-in-advance, dependable undertaking, or 120-day payment. (This code is used in combination with type of assistance codes 3, 4, 5, 6, U, V and Z.)
2.....	Credit Sale. Used when the entire case is financed directly from the Foreign Military Sales appropriation or the Military Sales Revolving fund, or financed by credit from a private bank or other commercial source under U.S. guarantee, and is within the limitations of a single credit arrangement between the United States Government and the foreign government concerned. (Used with type of assistance code Z.)
3.....	Credit Sale. Used when the entire case is financed by two separate credit arrangements between the United States Government and the foreign government concerned.
4.....	Credit Sale. Used when the entire case is financed by three separate credit arrangements between the United States Government and the foreign government concerned.
5.....	Credit Sale. Used when the entire case is financed by four separate credit arrangements between the United States Government and the foreign government concerned.
6.....	Split Funding Sale. Used when financing is from both cash and one credit arrangement.

31. Spare Parts Code

A single digit alpha code used to construct an item detail record for concurrent spare parts (CSP) or air/ground equipment (AGE). Codes are as follows:

<i>Code</i>	<i>Meaning</i>
N	Concurrent spare parts. Always use in combination with the FSN of the major item to which the concurrent spares apply and the generic code of the appropriate repair parts category. These generic codes are A9C, B9C, C9A, F9A, H9A, K7Z and K8A.
A	Air/ground equipment. Always use in combination with the FSN of the major item to which the AGE applies and generic code A7A.

32. Status Code

A single digit alpha code used to denote the status of a Foreign Military Sales case from its inception as an offer to a foreign government until all deliveries and financial transactions have been completed. Status codes are assigned by implementing agencies and all changes in status code, except two, are posted on the basis of changes reported by the implementing agency. The two exceptions are changes in status codes posted by DSAA as a result of computer pre-programming. Status codes are as follows:

<i>Code</i>	<i>Meaning</i>
O	Open offer. A formal offer has been transmitted to the foreign government by DD Form 1513 and acceptance or refusal by the foreign government is awaited.
E	Extended offer. An offer which has not been accepted or rejected by the country and the Offer Expiration Date (OED) has been reached. Application of this code indicates either a reporting lapse by an implementing Agency or that the foreign government has not acted during the time established for response on the DD Form 1513. When the OED is reached, the status is automatically changed to E. After 30 days in status E, the status will be changed to cancelled (X). The Implementing Agency should never report a status change to E or X as the system will not process card input status changes to either E or X.
A	Accepted offer. The foreign government has accepted the case by signature of DD Form

Code

Meaning

- 1513. Status code A is assigned even though the foreign government may not have made the initial downpayment of cash advance required under terms of the sales agreement.
- I Implemented case. A case for which the foreign government has accepted the offer and fulfilled all financial obligations necessary prior to commencement of supply action; or if financing is by DOD credit when necessary funds have been allocated by DSAA to the implementing agency. This code signifies that all conditions prerequisite to beginning supply action have been fulfilled and that supply agencies of the military departments have been directed to begin execution of the sales agreement. In many instances it will be possible to move directly from status "O" to status "I" because implementation occurs simultaneously with acceptance of the case by the foreign government.
- R Renegotiated case. The items, prices, financing or other terms of the original sales agreement have been modified by formal renegotiations between the U.S. and the foreign government. Normally only cases with status code I may be changed to status code R since changes in terms of the offer at the time of acceptance are not considered renegotiations.
- C Completed Case. A closed case for which (1) delivery of all items and performance of all services specified in the sales agreement have been completed by the implementing agency, (2) collections (or equivalent transaction) have been completed and (3) a final accounting statement has been furnished the purchaser. This code is assigned by the Military Department concerned.
- X Cancelled case. An offer which has not been accepted by the foreign government during the time period allowed; an offer withdrawn by the U.S. government; an offer declined by the foreign government; or an accepted case which is cancelled by either the foreign government or the U.S. government. Cancelled cases will be dropped from the 1100 System one year from the date of the offer; however, all line item detail records or collection records are automatically deleted by DSAA when a change card contains an X.

33. Sub-Area Code

The sub-area code is not contained in FMS input cards but is assigned as supple-

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mental data in computer records for use in selecting and sorting FMS data by geographical areas. The sub-area code is a single digit numeric code used in sorting so that countries precede international agencies or other activities. The numeric code 1 is assigned to countries and the numeric code 2 is assigned to international agencies and other activities.

34. System Code

The single digit alpha code S is punched in column 1 of all cards used in the FMS reporting system. The purpose of this code is to distinguish cards used in the FMS system from other card or tape data used in Security Assistance operations.

35. Type of Assistance Code

This code is used in the MILSTRIP system to distinguish between various types of Foreign Military Sales (FMS) transactions. In Foreign Military Sales, the code is used to identify the types of financing applied to cover each sales case. Codes used to identify various types of FMS financing are as follows:

<i>Code</i>	<i>Type of Financing</i>
3	Cash Sales from Stock. Country cash received in advance or upon constructive delivery or defense articles or the rendering of defense services. Billings are rendered under dependable undertaking concept. (Sec. 21, FMSA)
4	Procurement for Cash Sales. U.S. is provided with a dependable undertaking to pay for defense articles or defense services in full amount and to make funds available as required to meet contract payments. (Sec. 22, FMSA)
5	120-day payment for Sales of Items from Stock or Procurement. This type of assistance code can only be authorized by the Director, DSAA. Purchaser agrees to make payment for materiel or services within 120 days after delivery of such materiel or performance of such services (Sec. 21 and 22, FMSA, and Sec. 524, FAA of 1961, as amended).
U	International Cooperative Logistics Program—FMSO No. 1—Stock level cases under Supply Support Arrangements. (Sec. 21, FMSA)
V	International Cooperative Logistics Program—FMSO No. 2—Requisition cases under Supply Support Arrangements. (Sec. 21, FMSA)

<i>Code</i>	<i>Type of Financing</i>
Z	Credit Sales and Guaranties. DOD direct credit and credit guaranty sales of defense articles (from stock or from procurement) or defense services. (Sec. 23 and 24, FMSA and Sec. 524, FAA of 1961, as amended).

36. Unified Command Codes

Unified Command codes are not contained in FMS cards but are assigned as supplemental data in DSAA records for use in selecting and sorting sales data by Unified Command. This code identifies the Unified Command having cognizance over each FMS recipient, except non-regional, and is the key for segregating ADP listings for transmittal to unified commands. Unified Command codes are:

<i>Code</i>	<i>Unified Command</i>
E	European Command.
P	Pacific Command.
S	Southern Command.
N	Non-Regional.

37. Unit of Issue Codes

The following unit of issue abbreviations in the Federal Supply Catalogs are applicable to Military Assistance and FMS systems:

<i>Abbreviation</i>	<i>Description</i>
BT	Bottle
DR	Drum
CN	Can
EA	Each
PR	Pair
CY	Cubic Yard
FT	Foot
RE	Reel
DM	Dram
LB	Pound
SE	Set

In addition, the following exceptional codes are used:

<i>Abbreviation</i>	<i>Description</i>
MX	Thousands of rounds (ammunition)
XX	Dollars

38. Valid Letter Of Request

A request for an FMS materiel or service submitted through official channels which will normally cause the Military Department to

prepare a Letter of Offer. An informal request for a Price and Availability data, which will not directly lead to the preparation of a Letter of Offer will not be entered into the LOR subsystem.