



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

JUN 7 2005

In reply refer to:  
I-05/007552-BUSOPS

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE (DENVER CENTER) ATTN: DFAS/ADY  
DEPUTY DIRECTOR FOR COUNTRY FINANCIAL  
MANAGEMENT (DSCA/CFM)  
DEPUTY DIRECTOR FOR FINANCIAL POLICY &  
SUPPORT (DSCA/FPS)

SUBJECT: Termination Liability Reserve Policy & Procedures (DSCA 05-13)

REFERENCE: (a) DSCA MEMO 04-38, Termination Liability Reserve Policy &  
Procedures, dated 12 August 2004  
(b) DSCA MEMO 02-03, Termination Liability (TL) Reserves,  
dated 25 January 2002  
(c) DSCA Memo I-02/000792-FM, Termination Liability (TL)  
Computation Methodology Revisions, dated 15 February 2002

This memorandum provides an update to and supercedes the current financial policy and guidance previously issued per reference a above. The updated termination liability (TL) financial procedures reflected herein now include a requirement that all adjustments to TL reserve balances will be authorized via written memorandum signed by the DSCA Director for Business Operations.

Memoranda referenced above (references a, b and c) provided guidance with regard to DFAS and DSCA organizational roles and responsibilities in support of the calculation, administration, and management of TL reserve requirements for the Foreign Military Sales (FMS) program. In addition, the financial guidance emphasized that TL amounts are to be reserved in a consistent manner and in a centralized location. Reserved TL amounts are to be used exclusively to support a termination liability contingency and for no other purpose. In other words, TL reserves are not a part of a customer's available cash and therefore cannot be used to issue Expenditure Authority (EA) nor support disbursement actions unless specifically approved by the DSCA Director for Business Operations.

FMS customers can earn interest on their TL reserves. For FMS customers with a Federal Reserve Bank (FRB) account, TL reserves will be maintained in their FRB account provided sufficient funds are on deposit in the FRB to cover the TL reserved amount. Any exception to this policy must be approved by the DSCA Deputy Director

for Country Financial Management (DSCA/CFM) or the DSCA Director for Business Operations (DSCA/DBO).

Specific DFAS and DSCA organizational roles and responsibilities for the calculation, administration, and management of TL reserves follow:

DSCA - Deputy Director for Financial Policy & Support (DSCA/FPS).

1. DSCA/FPS is responsible for calculating, staffing and coordinating TL reserve amounts; advising DFAS/ADY of TL amounts to be reserved and any adjustments thereto; as well as, reporting and policy support for TL requirements. DSCA/FPS serves as the single, central point of contact for the calculation, administrative control, tracking, and reporting of TL reserves.
2. DSCA/FPS computes TL reserve requirements for all FMS customer programs on a quarterly basis in accordance with DoD FMR, Volume 15, 7000.14-R. Reserve requirements for TL are computed using the two methodologies identified in Reference (c) above. Upon calculation of the quarterly TL reserve amounts, DSCA/FPS forwards the computed amounts to DSCA/CFM for review and formal written approval by the DSCA/DBO.
3. Once the TL reserve amounts are approved, DSCA/FPS sends an e-mail notification to DFAS/ADY advising of the TL financial requirement amounts to be reserved in each FMS customer's TL account with an information copy to DSCA/CFM. An electronic copy of the DSCA/DBO approval memorandum is enclosed with the quarterly TL e-mail notification. The DSCA/FPS notification also advises DFAS/ADY to notify DSCA/FPS and DSCA/CFM if sufficient customer funds are not available to reserve the amount of TL identified. DSCA/CFM recommends appropriate follow-on actions to the DSCA/DBO. Once approved, DSCA/FPS advises DFAS/ADY accordingly with an information copy to DSCA/CFM.
4. All requests to transfer TL reserves between an FMS customer's FRB TL account and the customer's FMS Trust Fund TL account 1003 are staffed through DSCA/CFM with notification to DSCA/FPS. Similarly, all requests to transfer an FMS customer's reserved TL to the customer's FMS Trust Fund Cash Available account 1001 are staffed through DSCA/CFM with notification to DSCA/FPS. DSCA/CFM reviews and provides recommendations to the DSCA/DBO. Once approved, DSCA/FPS is notified and advises DFAS/ADY in writing to transfer the TL funds accordingly with an information copy to DSCA/CFM.

5. As stated above, DSCA/FPS calculates and updates TL reserve requirements on a quarterly basis. These TL reserve requirements are reflected on the monthly Health of Customer Program Report (HCPR). DSCA/FPS continues to provide the HCPR report to DSCA/CFM on a monthly basis. Modifications to the TL reserve requirements are not made during the quarter unless specifically approved on an exception basis by the DSCA/DBO via a written approval memorandum. Once approved, DSCA/FPS notifies DFAS/ADY in writing of the adjustments to be made to the TL reserve amounts with an information copy to DSCA/CFM. An electronic copy of the TL approval memorandum signed by the DSCA/DBO is included with all TL adjustment notifications to DFAS/ADY.

DSCA - Deputy Director for Country Financial Management (DSCA/CFM).

1. DSCA/CFM is responsible for the overall financial management of TL reserve requirements. DSCA/CFM receives and reviews DSCA/FPS quarterly TL reserve computations. The lower of the two DSCA/FPS TL computed amounts are used except when a legitimate basis may exist for deviating from the computed TL amounts. Amounts reserved for TL are approved by the DSCA/DBO via written memorandum. Upon written approval, DSCA/CFM forwards an electronic copy of the signed approval memorandum to DSCA/FPS.
2. DSCA/CFM staffs all requests to transfer TL reserves between an FMS customer's FRB TL account and the customer's FMS Trust Fund TL account 1003. Likewise, all requests to transfer an FMS customer's reserved TL to the customer's FMS Trust Fund Cash Available account 1001 are staffed through DSCA/CFM. Once approved, DSCA/CFM provides written notification to DSCA/FPS of the approved requests to transfer TL amounts.

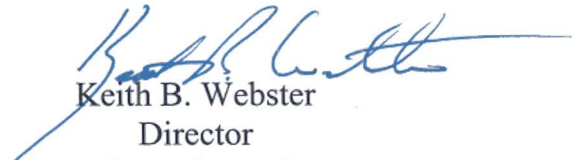
DFAS – Denver Director for Security Assistance Accounting (DFAS/ADY).

1. DFAS/ADY is responsible for maintaining official TL accounting records. DFAS/ADY receives the TL reserve amounts from DSCA/FPS, with the DSCA approval memorandum and records the amounts in the TL accounts, in accordance with DSCA/FPS direction. DFAS/ADY notifies DSCA/FPS and DSCA/CFM in writing once the TL records have been updated as requested. However, if sufficient customer funds are not available to reserve the TL amounts as requested by DSCA/FPS, DFAS/ADY immediately notifies DSCA/FPS and DSCA/CFM and awaits further guidance from DSCA/FPS.
2. Likewise, DFAS/ADY receives from DSCA/FPS TL amounts to be transferred either between an FMS customer's FRB and Trust Fund TL accounts or to a

customer's FMS Trust Fund Cash Available account 1001. Upon receipt, DFAS/ADY records the amounts in the FMS customer's accounts in accordance with DSCA/FPS direction. DFAS/ADY advises DSCA/FPS and DSCA/CFM in writing when the transfers have been completed.

3. DFAS/ADY ensures TL reserved balances are maintained in accordance with DSCA/FPS direction and are not available for expenditure authorization (EA) nor disbursement.

The DSCA points of contact for this TL policy and guidance are Mr. Charlie Kullhem (303-676-6190) and Mr. Bill Kramer (303-676-6178).



Keith B. Webster  
Director  
Business Operations