



**DEFENSE SECURITY COOPERATION AGENCY**

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**MAY 02 2018**

**MEMORANDUM FOR DEPUTY UNDER SECRETARY OF THE AIR FORCE FOR  
INTERNATIONAL AFFAIRS  
DEPUTY ASSISTANT SECRETARY OF THE ARMY FOR  
DEFENSE EXPORTS AND COOPERATION  
DEPUTY ASSISTANT SECRETARY OF THE NAVY FOR  
INTERNATIONAL PROGRAMS  
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY  
DIRECTOR DEFENSE FINANCE AND ACCOUNTING SERVICE,  
SECURITY COOPERATION ACCOUNTING  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE LOGISTICS INFORMATION SERVICE  
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY  
DIRECTOR, MISSILE DEFENSE AGENCY  
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE  
AGENCY  
DEPUTY DIRECTOR FOR INFORMATION ASSURANCE,  
NATIONAL SECURITY AGENCY  
JOINT STRIKE FIGHTER PROGRAM**

**SUBJECT: Reduction to the Foreign Military Sales (FMS) Administrative Surcharge Rate,  
Defense Security Cooperation Agency (DSCA) Policy Memo 18-27, E-Change 384**

**Reference: (a) Reduction to the Foreign Military Sales (FMS) Administrative Surcharge Rate,  
Defense Security Cooperation Agency (DSCA) Policy Memo 12-47**

**(b) Department of Defense (DoD) Financial Management Regulation 7000.14-R,  
Volume 15, "Security Assistance Policy and Procedures", September 2017**

The Arms Export Control Act requires that FMS activities be conducted at no cost to the U.S. Government and authorizes an administrative surcharge to recover all U.S. Government costs incurred to execute, manage, and oversee FMS activities. The FMS Administrative Surcharge rate is assessed as a percentage of the value of articles and services on each FMS case (Reference (a) established the 3.5% rate in 2012). The revenues generated from this surcharge are deposited into the FMS Administrative Surcharge Account and used to pay for U.S. Government expenses for the administration of FMS programs.

Chapter 3, Paragraph 030202.A of reference (b) requires DSCA to closely monitor the FMS Administrative Surcharge Account. The DSCA Security Assistance Management Manual formalizes periodic reviews of the FMS business and proactive and anticipatory account management. The FMS Administrative Surcharge Account's activity is reviewed annually with a deeper assessment conducted every five years. The results of these reviews serve as a basis for

surcharge rate adjustments. Based on the results of a recently completed extensive study of the FMS Administrative Surcharge Account, I have decided to reduce the FMS Administrative Surcharge rate from 3.5% to 3.2% effective June 1, 2018 as stated in the attached Implementation Instructions.

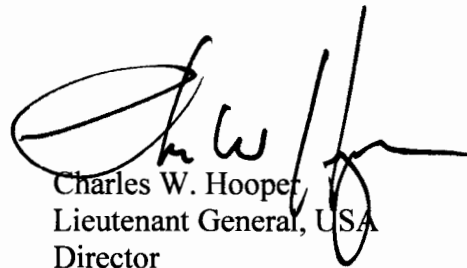
The reduction is possible because the FMS Administrative Surcharge Account has reached a balance that supports a modest rate reduction while allowing DSCA to fund the current Implementing Agency requirements and maintain the account "Safety Level" or strategic reserve to provide sufficient time for the agency to recognize and react to major changes in the FMS business model before those changes threaten the FMS Administrative Surcharge Account's solvency. Sufficient balances also remain to fully support all necessary financial requirements of the FMS community and make investments in initiatives that promise operational advancements and efficiencies.

The reduced rate will be applied to all new FMS and Building Partnership Capacity cases or new line items added onto amendments implemented on or after June 1, 2018. Any cases or amendments implemented prior to June 1, 2018, will continue to be assessed the surcharge rate in effect (i.e., 3.5%) on the existing lines. The rate reduction was approved by the Under Secretary of Defense (Comptroller).

Changes to existing lines made via future Letter of Offer and Acceptance (LOA) modifications or LOA amendments (e.g., to reflect pricing changes), will continue to be priced using its original FMS Administrative Surcharge rate as long as the changes being made do not reflect an increase in scope for that particular line item. Funds cannot be drawn down on a case line and a new line added for the same purpose or no change in scope.

If the case is being adjusted to reflect an increase in scope (e.g., to add quantities to a defined order line item; or to increase the value of a blanket order line item), these additional requirements must be included on new case line items which will be assessed the 3.2% FMS Administrative Surcharge rate.

Thank you for your continued support and assistance in executing our Security Cooperation programs. If you have questions or would like additional information, please contact Mr. Stephen Suh, DBO/FPA, Stephen.w.suh.civ@mail.mil, (703) 697-8899.



Charles W. Hooper  
Lieutenant General, USA  
Director

Attachment:  
As stated

**Implementation Instructions**  
FMS Administrative Surcharge Rate of 3.2%

**FMS Administrative Surcharge Instructions**

A. **Scope.**

1. The 3.2% FMS Administrative Surcharge rate applies to:
  - a. All case line items included on Letters of Offer and Acceptance (LOAs) "accepted" on or after 1 June 2018. The new rate applies regardless of the type of funding (national funds, grant funds, etc.) being used to finance the case. The new rate applies to all articles and services as well as any U.S. Government management services included in line items on the case.
  - b. All new line items added via LOA Amendments that are "accepted" on or after 1 June 2018 or added via LOA Modification that are "implemented" on or after 1 June 2018.
  - c. All Building Partner Capacity (BPC) cases and case line items being processed through the FMS system that meet the effective date requirements in (a) and (b) above.
2. The 3.2% FMS Administrative Surcharge rate does not apply to:
  - a. Cases and/or case line items already "accepted" or "implemented" prior to 1 June 2018. These existing cases and line items will continue to be assessed at the rate that was in effect at the time they were implemented.
  - b. Foreign Military Sales Order (FMSO) I cases. The Supply Support Arrangement surcharge for these cases continues to be 5% in accordance with the Department of Defense Financial Management Regulation (DoD FMR).
  - c. Cases established for Presidential Drawdowns using the "S9" program code.

B. **FMS Cases in "Accepted" or "Implemented" Status Prior to 1 June 2018.**

1. Cases and case line items that are in "accepted" or "implemented" status prior to 1 June 2018, will not be adjusted to reflect the new rate. These cases and case line items will instead retain the FMS Administrative Surcharge rate in effect at the time they were implemented.
2. If adjustments are made to these cases via future LOA Modifications or LOA Amendments (e.g., to reflect pricing changes), any existing line item will continue to be priced using its original FMS Administrative Surcharge rate as long as the changes being made do not reflect an increase in scope for that particular line item. If the case is being adjusted to reflect an

increase in scope (e.g., to add quantities to a defined order line item; or to increase the value of a blanket order line item), these additional requirements must be included on new case line items which will be assessed the 3.2% FMS Administrative Surcharge rate.

**C. LOAs in "Development" Status with Proposed Offer Expiration Dates (OEDs) Prior to 1 June 2018.** All LOAs being developed by the Implementing Agency (not yet submitted to DSCA for countersignature or not yet "Offered") must be priced using the 3.5% FMS Administrative Surcharge rate if the OED falls before 1 June 2018.

**D. Amendments in "Development" Status with Proposed OEDs Prior to 1 June 2018.** All Amendments being developed by the Implementing Agency (not yet submitted to DSCA for countersignature or not yet "Offered") must use the 3.5% FMS Administrative Surcharge rate against any new line items being added via that document if the OED falls before 1 June 2018.

**E. LOAs and Amendments in "Development" Status with Proposed OEDs On/After 1 June 2018.** All LOAs and Amendments being developed by the Implementing Agency (not yet submitted to DSCA for countersignature or not yet "Offered") must be priced using the 3.2% FMS Administrative Surcharge rate if the OED falls on or after 1 June 2018. A note must be included on these cases as follows:

**ADMINISTRATIVE SURCHARGE RATE CHANGE.**

<b>Note Usage</b>
Mandatory for FMS & BPC LOAs & Amendments that have an Offer Expiration Date (OED) on or after 1 June 2018.  NOTE: On the first Modification or Amendment being accomplished post Implementation of the document that added this note, delete this note as it will no longer be applicable to the given case after the document is Implemented and/or subsequent documents processed to update the Administrative Surcharge rate as applicable.
<b>References</b>
See Chapter 9.
<b>Note Input Responsibility</b>
CWD
<b>Note Text</b>
"Effective 1 June 2018, the Foreign Military Sales (FMS) Administrative Surcharge rate assessed against FMS cases will be 3.2%. This document includes one or more of the following conditions: new case Line Item(s), increases in quantity or period of performance/lead-time on defined order line(s), &/or increases the dollar value of blanket order line(s) which are priced using the 3.2% rate since the Offer Expiration Date (OED) of this document falls on or after 1 June 2018. If this document is "Accepted" (signed by the purchaser) prior to 1 June 2018, the 3.5% rate will remain valid. If this document is "Accepted" on or after 1 June 2018, it will be implemented as-written and a Modification or

Amendment, as appropriate, will be processed to change the FMS Administrative Surcharge to reflect the correct rate for any effected line items."

**F. LOAs and Amendments in Write, Review or Proposed Status Upon Release of the New Admin Policy.**

1. For any document under CWD control in "W", "R", or "P" on the date of release of this policy, the CWD will process the documents as if "Offered" in that the CWD will apply the additional information to the FMS Administrative Surcharge note as discussed in Section G below.

2. "Grace" Period - Four Weeks. The grace period for re-pricing documents in Development status before submission to the CWD will be two weeks from the date of release of this policy. For four weeks after the release date of this policy, the CWD will accept documents affected by this policy priced at the previous FMS Administrative Surcharge rate of 3.5%. During that period, the CWD will process such documents and apply the additional wording to the FMS Administrative Surcharge note discussed below. After that period, all documents submitted to the CWD which are affected by the new policy which are not correctly applying the new 3.2% rate will be returned to the MILDEP or IA for re-pricing.

**G. LOAs and Amendments in "Offered" Status with OED on/after 1 June 2018.** Any LOAs or Amendments in "Offered" status prior to release of this policy with an OED on/after 1 June were priced using the 3.5% rate. For all LOAs or Amendments in "Offered" status on the date of release of this policy with an OED of 1 June 2018 or later, the IA must execute a pen and ink change adding a paragraph to the existing FMS Administrative Surcharge note advising that the 3.2% FMS Administrative Surcharge rate will apply to this document if it is "Accepted" on or after 1 June 2018. (See note under section "H" below for specific note verbiage.)

**H. LOAs and Amendments in "Offered" Status with OED Prior to 1 June 2018.** Any LOAs or Amendments in "Offered" status with an OED prior to 1 June 2018 were priced using the 3.5% rate. If the OED is extended to reflect a date on/after 1 June 2018, the IA will execute a pen and ink change authorizing the OED and will also add a paragraph to the existing FMS Administrative Surcharge note advising that the 3.2% FMS Administrative Surcharge rate will apply to this document if it is "Accepted" on or after 1 June 2018. (See note section below for specific note verbiage.) If the OED extension is made on or after 1 June 2018, a pen and ink change will not be processed – instead, the case must be restated or a new case should be offered to reflect the lower rate.

**ADMINISTRATIVE SURCHARGE RATE CHANGE – OFFERED DOCUMENTS.**

Note Usage

Mandatory for pen and ink changes to FMS & BPC LOAs & Amendments that have an Offer Expiration Date (OED) on or after 1 June 2018. This note applies to LOAs & Amendments that include one or more of the following conditions: new case line item(s), increases in quantity or period of performance/lead-time on defined order line(s), &/or increases the dollar value on blanket order line(s) which are priced using the previous 3.5% rate. Note verbiage to be added as a separate paragraph in the FMS Administrative Surcharges note as applicable.

NOTE: On the first Modification or Amendment being accomplished post Implementation of the document that added this note, delete this note paragraph as it will no longer be applicable to the given case after the document is Implemented and/or subsequent documents processed to update the FMS Administrative Surcharge rate as applicable.

**References**

See Chapter 9.

**Note Input Responsibility**

IA

**Note Text**

"Effective 1 June 2018, the Foreign Military Sales (FMS) Administrative Surcharge rate assessed against FMS cases will be 3.2%. This document includes one or more of the following conditions: new case line item(s), increases in quantity or period of performance/lead-time on defined order line(s), &/or increases the dollar value on blanket order line(s) which are priced using the previous rate of 3.5%. If this document is "Accepted" (signed by the purchaser) prior to 1 June 2018, the 3.5% (standard/non-standard) rate will remain valid. However, if this document is "Accepted" on or after 1 June 2018, it will be implemented as-written and a Modification or Amendment, as appropriate, will be processed to change the FMS Administrative Surcharge to reflect the correct rate for any effected line items."

I. **Amendments for Scope Increases to Existing Cases in “Offered” Status with an OED On/After 1 June 2018.** Any existing case line item on Amendments that increase the quantity or period of performance/lead-time on a defined order line or increases the dollar value on a blanket order line that has already been offered to the purchaser must charge the 3.2% rate for that portion of the case related to the scope increase if they are “Accepted” on/after 1 June 2018, regardless of what rate was used on the “Offer”. A pen and ink change must be processed on any Amendment in “Offered” status with an OED that falls on or after 1 June 2018 if it includes any of the above scope changes. The IA executing the pen and ink change will add a paragraph to the existing FMS Administrative Surcharge note as contained in paragraph G. above. In addition, a Modification or Amendment, as appropriate, must be processed to move the scope increase to a new line item on the case and change to the 3.2% rate once the Amendment that increased the scope is implemented.

J. **Timeline to Process Modifications or Amendments to Correct the FMS Administrative Surcharge Rate.** Any Modification or Amendment, as appropriate, required to change the FMS Administrative Surcharge rate back to 3.5% based on early purchaser

acceptance or to 3.2% for new lines added to address scope changes should be processed no later than 30 days after the implementation date of the impacted LOA or Amendment. No pen and ink changes will be processed to adjust the FMS Administrative Surcharge rate due to early purchaser acceptance or to add new lines to address scope changes.

K. **FMS Administrative Surcharge Pricing Override Until 1 June.** Effective 1 June, DSAMS parameters for FMS Administrative Surcharge IPC s will default to 3.2% and "AP" (Applied) should be indicated on such new cases lines and new lines on Amendments. However, for all new cases and Amendments created prior to 1 June with OEDs after 1 June, the FMS Administrative Surcharge IPCs will need to use the Override Percent (OP) pricing function on the Indirect Pricing Components Tab of the Line Price Estimation Screen. Once "OP" is selected in the "Status" block, the "Percent" block should be changed to 3.2%. Separately, consistent with current OC/OP procedures, an IPC Remark must be added to the case indicating that Lines "X" to "Y" have OP pricing on the FMS Administrative Surcharge IPCs to apply the new 3.2% FMS Administrative Surcharge Rate to the appropriate lines based on the new FMS Administrative Surcharge policy, or words to this effect.

L. **Requests to reduce or close line on an implemented case after 1 June.** If an international partner makes a request to reduce or close an implemented case at the currently executed value or to close a case at zero value (cases cannot be reduced to zero value through LOA document actions) and create a new case with the same lines, or add those same lines to another existing case in an attempt to gain the lower rate, such requests will be adjudicated on a case-by-case basis. Before any request is made, the international partner will be informed that it will be charged for all costs incurred to process their request to include all labor spent by the IA, Case Writing Division, DSCA, and the Defense Finance and Accounting Service (DFAS). DSCA will input a case remark in DSAMS indicating the additional FMS Administrative Surcharge required and direct DFAS to bill that amount.

**Reduction to the Foreign Military Sales (FMS) Administrative Surcharge Rate  
Attachment 2 - E-Change 384**

1) Update lines in the following figures to reflect the new FMS Surcharge Rate:

**Figure C5.F3. Sample Letter of Offer and Acceptance (LOA)**

Note 13. ADMINISTRATIVE SURCHARGE.  
An administrative surcharge of 3.2% has been applied to Lines 001-005.

**Figure C6.F3. Amendment Format**

Note 17. ADMINISTRATIVE SURCHARGE (REVISED).  
An administrative surcharge of 3.2% has been applied to lines 001-006.

**Figure C6.F4. Modification Format**

Note 17. ADMINISTRATIVE SURCHARGE (RESTATED).  
An administrative surcharge of 3.2% has been applied to lines 001-006.

2) Section C9.14.2.1. Background is revised as follows:

C9.14.2.1. Background. In 2006, financial reforms were implemented across the security assistance/cooperation (SA/SC) community. This was the result of an increase to the FMS Administrative Surcharge rate (from 2.5% to 3.8%) and renewed efforts to enforce existing manpower requirements by DSCA and the SA/SC community, to ensure funds were spent appropriately and in a consistent manner. DSCA's responsibility to ensure funds are used correctly is defined in DoD 7000.14-R, Volume 15, and DoD Directive 5105.65. DSCA must "monitor usage of FMS Trust Funds to include periodic reviews of funding levels and unused balances." Further, DSCA exercises "financial management responsibility for the Foreign Military Sales Trust Fund and reporting functions for SC programs." DSCA began conducting these Business Process Reviews (BPRs) in FY 2011. Subsequent BPRs will take into account changes in the FMS Administrative Surcharge rate as necessary.

3) Table C9.T4. Table of Charges is revised as follows:

Charge	Description	How Priced	Applied by - for billing	References
FMS Administrative Surcharge	Cost of administering FMS and FMS-like programs	Included as a percentage of applicable line items as a below-the-line charge on the LOA. <ul style="list-style-type: none"> <li>3.2% for both standard and nonstandard articles/services (for</li> </ul>	DFAS Indianapolis	<a href="#">AECA, sections 21(e)(1)(A) (22 U.S.C. 2761(e)(1)(A)) and 43(b) (22 U.S.C. 2792(b)) DoD FMR, Volume 15,</a>



		<p>LOA lines accepted on or after 1 June 2018)</p> <ul style="list-style-type: none"> <li>• 3.5% for both standard and nonstandard articles/services (for LOA lines accepted on or after 1 November 2012).</li> <li>• 3.8% for both standard and nonstandard articles/services (for LOA lines accepted on or after August 1, 2006 and before 1 November 2012).</li> <li>• 2.5% for standard articles/ services (for LOA lines implemented on or after June 1, 1999 and before August 1, 2006).</li> <li>• 3% for standard articles/ services (for LOA lines implemented on or after October 1, 1977 and before June 1, 1999.)</li> <li>• For cases signed prior to October 1, 1977, the FMS Administrative Surcharge was 2%.</li> <li>• 5% for non-standard articles/ services (for LOA lines for non-standard items implemented before August 1, 2006).</li> <li>• 5% for Foreign Military Sales Order (FMSO) I cases.</li> </ul> <p>The FMS Administrative Surcharge does not apply to Program Management Lines (PMLs). Per the <a href="#">AECA Section 21(g)</a>, the FMS Administrative Surcharge may be excluded from non-dedicated training lines</p>	<p><a href="#">Chapter 7, paragraph 0706</a>  BPC: The cost of administering these cases is no different than FMS cases.</p>
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		<p>applicable to reciprocal pricing agreement countries (refer to <a href="#">Section C10.T13</a> and <a href="#">Section C10.T14</a>).</p> <p>However, if excluded, the MILDEP is responsible for the cost.</p> <p>The FMS Administrative Surcharge does not apply to Small Case Management Lines (SCMLs).</p> <p><a href="#">See Section C9.4.7.2</a> for information on minimum collection requirements for FMS Administrative Surcharge costs.</p> <p>Does not apply to EDA Grant Lines.</p>		
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4) Appendix 6, LOA Note “Administrative Surcharge” is revised as follows

<b>Note Usage</b>
<p>Mandatory for LOAs (including Pseudo LOAs) that include administrative surcharges.</p> <p>Mandatory for Amendments and Modifications even if the administrative surcharges are not affected by the changes being made.</p>
<b>References</b>
<p>See Section C9.5.</p>
<b>Note Input Responsibility</b>
<p>CWD</p>
<b>Note Text</b>
<p>"An administrative surcharge of 3.2% has been applied to lines [insert applicable line numbers]."</p> <p>And/or</p> <p>"An administrative surcharge of 3.5% has been applied to lines [insert applicable line numbers]."</p> <p>And/or</p> <p>"An administrative surcharge of 3.8% has been applied to lines [insert applicable line numbers]."</p> <p>And/or</p> <p>"An administrative surcharge of 2.5% has been applied to lines [insert applicable line numbers]."</p> <p>And/or</p> <p>"An administrative surcharge of 3% has been applied to lines [insert applicable line numbers]."</p> <p>And/or</p> <p>"An administrative surcharge of 5% has been applied to [insert applicable line numbers]."</p> <p>And/or</p> <p>"An administrative surcharge has not been applied to lines [include applicable line numbers]."</p>

Only include the percentages that are included on the case.

- 5) Add the following notes to Appendix 6, LOA Notes.

**Administrative Surcharge Rate Change.**

<b>Note Usage</b>
Mandatory for FMS & BPC LOAs & Amendments that have an Offer Expiration Date (OED) on or after 1 June 2018. NOTE: On the first Modification or Amendment being accomplished post Implementation of the document that added this note, delete this note as it will no longer be applicable to the given case after the document is Implemented and/or subsequent documents processed to update the Administrative Surcharge rate as applicable.
<b>References</b>
See Chapter 9.
<b>Note Input Responsibility</b>
CWD
<b>Note Text</b>
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**Administrative Surcharge Rate Change – Offered Documents.**

<b>Note Usage</b>
Mandatory for pen and ink changes to FMS & BPC LOAs & Amendments that have an Offer Expiration Date (OED) on or after 1 June 2018. This note applies to LOAs & Amendments that include one or more of the following conditions: new case line item(s), increases in quantity or period of performance/lead-time on defined order line(s), &/or increases the dollar value on blanket order line(s) which are priced using the previous 3.5% rate. Note verbiage to be added as a separate paragraph in the FMS Administrative Surcharges note as applicable. NOTE: On the first Modification or Amendment being accomplished post Implementation of the document that added this note, delete this note paragraph as it will no longer be applicable to the given case after the document is Implemented and/or subsequent documents processed to update the FMS Administrative Surcharge rate as applicable.
<b>References</b>
See Chapter 9.
<b>Note Input Responsibility</b>

IA

**Note Text**

"Effective 1 June 2018, the Foreign Military Sales (FMS) Administrative Surcharge rate assessed against FMS cases will be 3.2%. This document includes one or more of the following conditions: new case line item(s), increases in quantity or period of performance/lead-time on defined order line(s), &/or increases the dollar value on blanket order line(s) which are priced using the previous rate of 3.5%. If this document is "Accepted" (signed by the purchaser) prior to 1 June 2018, the 3.5% (standard/non-standard) rate will remain valid. However, if this document is "Accepted" on or after 1 June 2018, it will be implemented as-written and a Modification or Amendment, as appropriate, will be processed to change the FMS Administrative Surcharge to reflect the correct rate for any effected line items."