



DEFENSE SECURITY COOPERATION AGENCY

2800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2800

26 January 2023

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 INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY
DIRECTOR, MISSILE DEFENSE AGENCY
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE
AGENCY
DIRECTOR FOR SECURITY ASSISTANCE, DEFENSE FINANCE
AND ACCOUNTING SERVICE – INDIANAPOLIS
OPERATIONS
DIRECTOR OF CYBERSECURITY DIRECTORATE AND DEPUTY
NATIONAL MANAGER FOR NATIONAL SECURITY
SYSTEMS, NATIONAL SECURITY AGENCY

SUBJECT: New Term of Sale, Credit Assured Payment Schedules (CAPS), DSCA Policy 22-47
[SAMM E-Change 565]

References: (a) Security Assistance Management Manual (SAMM) Chapter 9

Effective immediately, a new term of sale titled "Credit Assured Payment Schedules" (CAPS) is available for Foreign Military Sales (FMS) cases with eligible FMS partners. This memorandum establishes the policy for offering and implementing CAPS on Letters of Offer and Acceptance (LOAs) for eligible FMS partners that request the term of sale, and updates Chapter 9 of the Security Assistance Management Manual (SAMM) accordingly.

CAPS offers an alternative to the "Cash with Acceptance" standard term of sale for FMS partners that do not qualify for Dependable Undertaking (DU) or Risk Assessed Payment Schedule (RAPS) status. CAPS may also offer a lower initial deposit for partners who qualify for RAPS, but seek to make an initial payment of 25% versus 50%. CAPS authorizes the use of payment schedules on an FMS partner's LOAs where a Standby Letter of Credit (SBLC) is established at the dollar value equivalent to the total uncollected value of all applicable LOAs, and associated Modifications and Amendments. The SBLC demonstrates a willingness and requisite ability to make payments to the United States Government (USG) for its FMS program,

thereby ensuring that FMS partners will pay the full amount of its LOAs, sufficiently mitigating USG financial risk against any losses in accordance with Section 22 of the Arms Export Control Act (AECA), as amended.

FMS partners may qualify for CAPS through the provision of an SBLC from a U.S. bank with a minimum "A" credit rating, or a foreign bank located in the U.S. with a license from the Office of the Comptroller of the Currency and that has a minimum "A" credit rating. Final determinations of bank eligibility are at the discretion of the Defense Security Cooperation Agency (DSCA) Financial Policy. The SBLC provided by the FMS partner must name DSCA as a beneficiary, thus providing access to funds via a demand letter if the FMS partner fails to make payment. Finally, there must be a Memorandum of Understanding (MOU) between the FMS partner and DSCA, governing the relationship. These agreements must be established prior to offering any LOAs using the CAPS term of sale.

Standard payment schedules will be generated by DSCA using the Defense Security Assistance Management System (DSAMS). Alternatively, a partner requested unique payment schedule may be used if approved by the DSCA Country Finance Director (CFD). All payment schedules will require an initial deposit of 25% of the Total Case Value (TCV), which will be collected prior to LOA implementation. As CAPS LOAs are secured by an SBLC, the DSCA CFD will work with DSCA Financial Reporting and Compliance (FRC) to ensure that LOAs with CAPS terms of sale are not included in the quarterly Termination Liability calculations.

FMS partners are expected to make the initial deposit and quarterly payments in accordance with the Defense Finance Accounting Service (DFAS) quarterly billing process (DD645). Pursuant to the MOU between the FMS partner and DSCA, the SBLC will only be leveraged for payment by DSCA if the FMS partner fails to make payment. Timely payments will help establish a positive payment history with the USG, which is a positive factor in a future DU assessment. In the event of recurring incomplete or untimely payments, DSCA reserves the right to revoke the partner's CAPS eligibility for future LOAs, and issue a demand letter to the bank to fully fund all existing LOAs with the CAPS term of sale.

CAPS may be used in conjunction with Foreign Military Financing (FMF) and "Cash Prior to Delivery" terms of sale. This policy memorandum does not change the policy and procedures used to determine an FMS partner's eligibility for DU.

If you have questions on this memorandum, please contact Ms. Trish Manzke, DSCA/OBO/FPRE/FP, at (703) 697-2603 or patricia.m.manzke.civ@mail.mil.

HARDING.JOSEPH
.AARON.



Digitally signed by
HARDING.JOSEPH.AARON.
Date: 2023.01.26 11:04:54 -05'00'

J. Aaron Harding
Chief Operating Officer and Chief Financial Officer
Defense Security Cooperation Agency

Attachments: As stated.

Attachment A: Security Assistance Management Manual E-Change 565

NEW TERM OF SALE, CREDIT ASSURED PAYMENT SCHEDULES, DSCA POLICY 22-47 [SAMM E-CHANGE 565]

1. Add SAMM Section C9.8.5., Credit Assured Payment Schedules

C9.8.5. Credit Assured Payment Schedules. Credit Assured Payment Schedules (CAPS) is a term of sale that provides approved FMS partners with an alternative to the "Cash with Acceptance" standard term of sale through the provision of a Standby Letter of Credit (SBLC). The SBLC establishes a partner's eligibility for payment schedules. CAPS offers FMS partners a mechanism to establish a positive payment history for future Letters of Offer and Acceptance (LOAs) and mitigates risk to the United States Government (USG) against non-payment while allowing partners to avoid paying for 100% of a Foreign Military Sales (FMS) case upon LOA acceptance.

C9.8.5.1. Eligibility. DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) will determine FMS partner eligibility for CAPS by ensuring that a proposed bank is qualified to issue or confirm an SBLC in accordance with SAMM [Section C9.9.1.5.4.5.2.4.1.](#)

C9.8.5.2. Standby Letter of Credit - Credit Assured Payment Schedules. The value of the Standby Letter of Credit (SBLC) must be equal to or greater than the total uncollected value of all applicable implemented and proposed CAPS-related FMS LOAs, Modifications, and Amendments.

C9.8.5.2.1. Standby Letter of Credit – Credit Assured Payment Schedules Documents.

C9.8.5.2.1.1. Standby Letter of Credit. CAPS eligible FMS partners may obtain an SBLC issued by an eligible bank. The SBLC is a formal and independent undertaking issued by a bank to DSCA as the "beneficiary" of the SBLC, specifies the responsibilities of the bank and the FMS partner, and establishes the ability for DSCA to draw upon the value of the SBLC when the FMS partner does not make a timely payment. The SBLC, in effect, serves as the partner's guarantee of payment to DSCA in the event they fail to make timely quarterly payments on an FMS LOA in accordance with the DD645.

C9.8.5.2.1.2. Memorandum of Understanding. The Memorandum of Understanding (MOU) governs the relationship between, and the responsibilities of, DSCA, the FMS partner, and the bank concerning the establishment, review, modification, drawing on, and termination of an SBLC. The MOU must be negotiated and signed prior to SBLC implementation.

C9.8.5.2.1.3. Demand for Payment (Drawdown). The demand for payment is a letter that DSCA would present to the bank to demand payments from the issuing/confirming financial institution for the amount required by the USG, and may not exceed the amount of the SBLC.

C9.8.5.2.1.4. SBLC Status Report. DSCA Office of Business Operations, Country Finance Director (CFD) will maintain, monitor, and track the issuance, activity, and processing of all SBLC documents.

C9.8.5.2.2. Roles and Responsibilities.

C9.8.5.2.2.1. Issuing Bank. Issuing bank responsibilities listed at [Section C9.9.1.5.4.4.3.](#)

C9.8.5.2.2.2. Confirming Bank. Confirming bank responsibilities listed at [Section C9.9.1.5.4.4.4.](#)

C9.8.5.2.2.3. Country Finance Director. The DSCA Office of Business Operations Country, Finance Director (CFD) shall coordinate the signing of a Memorandum of Understanding (MOU) between the FMS partner and DSCA. The CFD will work with the partner and the issuing bank to acquire a draft of the Standby Letter of Credit (SBLC). The CFD is responsible for informing the Security Cooperation Officer (SCO), Implementing Agency (IA) and Foreign Military Sales (FMS) partner of DSCA's (OBO/FPRE/FP) decision regarding the partner's CAPS approval, and ensures the term of sale on the LOA identifies CAPS and prompts CFD's LOA monitoring. The CFD will toggle the SBLC indicator on and enter the PAYAUTH milestone in Defense Security Assistance Management System (DSAMS) to facilitate the use of the CAPS term of sale. For FMS partner unique payment schedules, the CFD will communicate approval/denial to the IA and enter approval Case Remark in DSAMS. The CFD will monitor the SBLC value, the difference between the DD645 invoice and payment schedule, and the total uncollected value of the CAPS LOAs, Modifications, and Amendments. The CFD will monitor payments in the Monthly Case Report (MCR) and will work with both DFAS and the partner to determine the nature and causation of any late/missed payments. If a remedy has not been provided within 30 days, the CFD, with support from DFAS, will issue a demand letter against the SBLC for the quarterly payment.

C9.8.5.2.2.4. Financial Policy. DSCA (OBO/FPRE/FP) is responsible for vetting the issuing bank and the confirming bank, if applicable, to ensure they meet the criteria outlined in SAMM [Section C9.9.1.5.4.5.2.4.1.](#) Based on its findings, DSCA (OBO/FPRE/FP) will inform the CFD of its approval or disapproval of the FMS partner's CAPS request.

C9.8.5.2.2.5. Financial Reporting and Compliance. As CAPS LOAs are secured by an SBLC, DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Reporting and Compliance Division (OBO/FPRE/FRC)) and the CFD will work together to ensure these LOAs are not included in the quarterly Termination Liability calculations.

C9.8.5.2.2.6. Implementing Agencies. The IA will communicate the request to use a unique payment schedule on the LOA checklist upon MILAP, and subsequently upload documentation into the Case Tracking System for review and approval by the DSCA Case Writing Division (CWD) and DSCA CFD.

C9.8.5.3. Monitoring. The CFD will monitor collections in the Monthly Case Report (MCR) to ensure that the partner has made the required payments at the appropriate times.

Should there be any issues with payments, the CFD will coordinate with DFAS to address concerns. This requirement ensures the FMS partner is making complete and timely payments.

C9.8.5.3.1. If DFAS and the CFD identify that payments are not made as required, the CFD will work with both DFAS and the FMS partner to determine the nature and causation of the late/missed payment. If a remedy has not been provided within 30 days, the CFD, in conjunction with DFAS, will issue a demand letter against the SBLC for the quarterly payment.

C9.8.5.4. Revocation. In the event of recurring incomplete or untimely payments, DSCA may revoke an FMS partner’s CAPS status and require Cash with Acceptance on both current and future LOA documents.

C9.8.5.5. Termination. In all cases, the termination of an SBLC prior to its expiration date is subject to the written consent of DSCA.

C9.8.5.5.1. Termination due to bank eligibility. If either the issuing bank or confirming bank cease to satisfy the eligibility criteria while the SBLC is in effect, DSCA will notify the FMS partner that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the SBLC for the remaining amount of the SBLC, as applicable. Otherwise, DSCA will require another SBLC for the uncollected Total Case Value (TCV) amount to be issued by a bank that satisfies the eligibility criteria for the FMS partner to continue using the CAPS term of sale.

C9.8.5.5.2. Termination by bank. Should the issuing bank announce its decision to revoke the SBLC, the FMS partner will be required to provide a new SBLC with another qualifying bank for the remaining uncollected TCV amount. If that is not provided, then the partner will be required to pay the remaining uncollected TCV amount as the term of sale would change to Cash with Acceptance.

2. Update SAMM Table C9.T11., Terms of Sale, to include Credit Assured Payment Schedules and modify Risk Assessed Payment Schedules.

TERM OF SALE	APPLICATION
Credit Assured Payment Schedules	<ul style="list-style-type: none"> • Used as an alternative to the “Cash with Acceptance” standard term of sale through the provision of a Standby Letter of Credit (SBLC) that establishes a partner’s eligibility for payment schedules. • Used to guarantee payment schedules for a partner not authorized for Dependable Undertaking or Risk Assessed Payment Schedules (RAPS).

	<ul style="list-style-type: none"> • May offer a lower initial deposit for partners who qualify for RAPS, but seek to make an initial payment of 25% versus 50%. • Approved by DSCA Financial Policy on a case-by-case basis.
Risk Assessed Payment Schedules	<ul style="list-style-type: none"> • Approved by the DSCA Chief Financial Officer on a case-by-case basis. Authorized in accordance with AECA section 22. • Used as an alternative to the “Cash with Acceptance” standard term of sale for partners that are ineligible for Dependable Undertaking (DU) status. RAPS allows eligible partners to use payment schedules following an initial deposit of either maximum termination liability or 50% of total case value. • RAPS offers FMS partners on the cusp of DU eligibility a mechanism to establish a positive payment history for future LOAs, while mitigating risk to the United States Government against non-payment. DSCA will evaluate and grant the FMS partner's eligibility at the case- or country-level with the existing three tier DU evaluation process.

3. Add to SAMM Table C9.T17.

CONDITION	INITIAL DEPOSIT AMOUNT
Credit Assured Payment Schedules	Amount: 25% of the total case value

Attachment B: Implementation Guidance

Credit Assured Payment Schedules Term of Sale

A. Policy

1. Defense Security Cooperation Agency (DSCA) [Policy Memo 22-47 New Term of Sale, Credit Assured Payment Schedules \(CAPS\)](#), September, 2, 2022
2. Security Assistance Management Manual (SAMM) [Chapter 9, Section 9.1.5.4., Standby Letter of Credit \(SBLC\)](#)

B. Responsibilities

1. The Security Cooperation Office (SCO), Implementing Agency (IA), or Foreign Military Sales (FMS) partner may submit an official request for Credit Assured Payment Schedules (CAPS) to the DSCA Office of Business Operations, Country Finance Director (CFD) along with the bank it desires to issue the Standby Letter of Credit (SBLC). DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) will confirm the bank meets the criteria outlined in SAMM [Section C9.9.1.5.4.5.2.4.1.](#)
2. Per SAMM [Section C9.9.1.5.4.1.2.](#), the CFD will coordinate the signing of a Memorandum of Understanding (MOU) between the FMS partner and DSCA.
3. The CFD then works with the FMS partner and associated bank to acquire a draft of the SBLC. The MOU, draft SBLC, and request letter are required for CAPS consideration.
4. The SBLC must reflect a value of 75% or greater of the Total Case Value (TCV). Per SAMM [Section C9.3.8.](#), the Letters of Offer and Acceptance (LOA) indicates that prices for articles and/or services are estimates.
5. Once the request letter, MOU, and draft SBLC are gathered, organized, and reviewed, the CFD emails the files electronically to the International Operations - Regional Execution (IOPS REX) Country Portfolio Director (CPD) requesting package review and concurrence to proceed with the CAPS approval process.
6. Once IOPS REX has concurred on the package, the CFD forwards the package to DSCA (OBO/FPRE/FP) for approval.
7. DSCA (OBO/FPRE/FP) will make a determination and notify the CFD of the approval or disapproval.
8. The CFD will then notify the SCO, IA, and FMS partner of the decision.

9. Once an SBLC is in place the CFD will work with the partner to develop a Letter of Acceptance (LOA).

i. The CFD will confirm the payment schedule with the IA.

C. After the case is placed in MILAP, the CFD will ensure the term of sale on the LOA identifies CAPS in the Defense Security Management System (DSAMS). Further, the CFD will write a Case Remark in DSAMS noting the requirement for a unique payment schedule and its approval.

1. The CFD will monitor the SBLC value, the difference between the DD645 invoice and payment schedule, and the total uncollected value of the CAPS LOAs, Modifications, and Amendments.
2. The CFD will monitor payment collections in the monthly case report and coordinate with DFAS in the event of missed payments or any other concerns. This is a positive monitoring requirement that will ensure the FMS partner is making complete and timely payments.
3. The CFD will work with both DFAS and the FMS partner to determine the nature and causation of the late/missed payment. If a remedy has not been provided within 30 days, the CFD, in conjunction with DFAS, will issue a demand letter against the SBLC for the quarterly payment. Refer to SAMM [Section C9.8.5.3.1](#) for a timeline on missed payments.
4. After four payments are missed, which equates to a full year's worth of payments, DSCA may revoke the partner's CAPS status. The SBLC will be leveraged when the partner is unable to make a quarterly payment or does not have sufficient funds to cover an out of cycle bill.

D. SBLC Drawdown Process

1. For the SBLC drawdown process refer to SAMM [Section C9.9.1.5.4.16](#).
2. DSCA reserves the right to issue a demand letter at any time when a payment is due and/or there are insufficient funds available in the partner's FMS account.

E. Amendments and Modifications to the SBLC

1. Amount Increases Requiring Amendments to SBLC and Confirmation. If the SBLC value needs to be amended by 10% or less of the TCV(s) due to fluctuations in pricing, then DSCA will follow steps outlined in the Automatic Adjustment section of the SAMM in [Section C9.9.1.5.4.23.1](#). If there is a need to increase the value of the SBLC to support new CAPS LOAs or current CAPS LOA Modifications or Amendments, the CFD will notify the FMS partner in writing that an increase is necessary, and will allow the FMS partner ten business days to provide an amended SBLC or deposit funds from a source outside the applicable SBLC.

2. Discretionary. Demands for automatic increases by DSCA are at its sole discretion.
3. Multiple Demands. There may be multiple demands to increase the amount available under the SBLC and Confirmation, if applicable, up to the credit limit as outlined by the bank.
4. Notice of Increase or Decrease. As a courtesy, DSCA will make best efforts to send a notice to the FMS partner that it will make a demand to the bank for an increase or decrease in advance of doing so. This will constitute the beginning of the ten business days for the partner to respond.
5. Decreases. If analysis performed by the CFD reveals that a decrease in the amount of the SBLC and Confirmation is warranted, the CFD shall notify the FMS partner in writing. The FMS partner then has the option to either approve a decrease to the SBLC and Confirmation, or leave the amount unchanged. The FMS partner's response must be addressed in writing. If no reply is received by DSCA within 30 calendar days of the date of DSCA's written notice to the FMS partner, DSCA shall not send the request for decrease to the issuing/confirming bank. If the FMS partner agrees to a decrease, and if the grounds for the decrease continue to be applicable, DSCA will demand a decrease in the amount of the SBLC and Confirmation by presenting a Demand for Automatic Reduction (Annex G of the SAMM [SBLC MOU template](#)).

F. Payment Schedule Revisions

1. The CFD will monitor applicable payment schedules to ensure that collections are aligned with financial requirements.
 - i. If collections exceed disbursements (over collected), the CFD may discuss the performance of the LOA with the IA to determine if an updated payment schedule is warranted. If the over collection is 33% or greater, the CFD will notify the partner and determine whether a payment schedule update is needed. The revised payment schedule will be annotated in DSAMS Case Remarks by the CFD prior to entry of the MILAP milestone.
 - ii. If disbursements exceed collections (under collected), the CFD must immediately work with the IA to amend the payment schedule to ensure a more accurate payment schedule is provided to the FMS partner. The revised payment schedule will be annotated in DSAMS Case Remarks by the CFD prior to entry of the MILAP milestone.
 - iii. Any updates to the payment schedule will be coordinated between the DSCA CFD, SCO, and FMS partner.
2. At a minimum, the CFD will review applicable payment schedules on an annual basis.

G. Expiration Date Extension.

1. For Expiration Date Extension, refer to SAMM [Section C9.9.1.5.4.23.3.](#)

H. Termination Provisions

1. Termination of an SBLC prior to its expiration date is subject to the written consent of DSCA.
2. If either the issuing bank or confirming bank cease to satisfy the eligibility criteria while the SBLC is in effect, DSCA will notify the Purchaser that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the SBLC for the remaining amount of the SBLC, as applicable. Otherwise, DSCA will require another SBLC for the remaining TCV amount to be issued by a bank that satisfies the eligibility criteria.

I. Closeout

1. For closeout of the SBLC refer to SAMM [Section C9.9.1.5.4.28.](#)