DEFENSE SECURITY COOPERATION AGENCY
2800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2800

June 16, 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: Bank Letter of Credit, DSCA Policy 23-13 [SAMM E-Change 596]

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

Effective immediately, this memorandum establishes policy for implementing Bank Letters of Credit (BLOC) on Letters of Offer and Acceptance (LOAs) for eligible Foreign Military Sales (FMS) partners that request the use of a Letter of Credit (LC). This memorandum updates reference (a) accordingly.

BLOC provides additional financing options for partners using third-party funds from an eligible lending institution in place of, and to be treated the same as, national funds in accordance with reference (a) Section C9.7.1. An LC may be used to make routine payments on a Foreign Military Sales program, supplement national funds, or be used to make payments in conjunction with an existing term of sale for a partner's LOA(s) and associated LOA modifications and amendments. The LC demonstrates a willingness and requisite ability to make payments to the U.S. Government (USG) for its FMS program, thereby ensuring that partners pay the full amount of its LOA(s), while mitigating USG financial risk against any losses, in accordance with Section 22 of the Arms Export Control Act (AECA), as amended.

FMS partners must obtain the LC from a U.S. bank with a minimum "A" credit rating, or a foreign bank with a minimum "A" credit rating, located in the United States with a license from the Office of the Comptroller of the Currency (OCC). Final determination of bank eligibility is at the discretion of the Defense Security Cooperation Agency (DSCA) Financial Policy. The LC provided by the FMS partner must name DSCA as the sole beneficiary, thus providing access to funds via a demand letter if the FMS partner fails to make payment.

In addition to the LC, the partner must sign a Memorandum of Understanding (MOU) with DSCA that sets forth the roles and responsibilities of the partner and DSCA prior to implementation and reliance on the LC. The MOU may authorize an LC for reduction in the partner's national fund balance in its FMS Trust Fund, or the use of an LC to establish payment schedules on new LOAs that are associated with the LC.

The MOU between the partner and DSCA will provide that it is the responsibility of the partner to take all necessary action to ensure payments are in accordance with the terms and conditions of the LOA. DSCA will send all communications regarding FMS billing to the partner per the standard billing process. The partner must arrange for payment from the bank to the FMS Trust Fund in the amount included on the DD645 or DSCA Special Bill. In the event of recurring incomplete or untimely payments, DSCA reserves the right to revoke the partner's LC eligibility and issue a demand letter to the bank to fund all existing LOAs, modifications, and amendments covered by the LC.

Use of an LC does not constitute a new term of sale, but instead may be used in conjunction with a term of sale, to include Dependable Undertaking (DU), Risk Assessed Payment Schedules (RAPS), or Credit Assured Payment Schedules, depending on partner eligibility. Unless otherwise stated, this policy does not change the policy, requirements, eligibility, or processes for the term of sale to which the LC is being applied. Further, use of an LC does not change the assessment procedure used to determine eligibility for DU or RAPS. Making timely payments under a payment schedule secured by an LC will help establish a positive payment history with the USG, which could positively impact future DU assessments.

If you have questions concerning this guidance, please contact Ms. Trish Manzke, Division Chief, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP), at (571) 882-4759 or patricia.m.manzke.civ@mail.mil.

HARDING.JOSEPH.AARON. Digitally signed by HARDING.JOSEPH.AARON. Date: 2023.06.16 08:57:45 -04'00'

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

Attachments:
1. Security Assistance Management Manual E-Change 596
2. Bank Letter of Credit Implementation Guidance

Attachment 1: Security Assistance Management Manual E-Change 596
BANK LETTER OF CREDIT, DSCA POLICY 23-13 [SAMM E-CHANGE 596]

1. Add SAMM Section C9.7.1.2., Bank Letter of Credit

C9.7.1.2. Bank Letter of Credit. Bank Letters of Credit (BLOC) permits the use of a Letter of Credit (LC), a type of third-party loan funding from a commercial bank, Export Credit Agency, or other lending institution, to make payments. The USG should treat these payments the same as national funds, per SAMM Section C9.7.1. In all cases, the LC must be in U.S. dollars.

C9.7.1.2.1. Letter of Credit – Uses

C9.7.1.2.1.1. Letter of Credit for Routine Payments. The LC may serve as a replacement for national funds held in the FMS Trust Fund or Interest Bearing Account, to make routine payments due under the LOAs. The LC must be replenished after each drawdown to ensure that sufficient funds are available. The partner is responsible for ensuring the funds are transferred from the bank to its FMS Trust Fund at the time they receive the DD645 quarterly bill, or the DSCA Special Bill.

C9.7.1.2.1.1.1. Requirements. In order to utilize BLOC, the partner must be eligible for Dependable Undertaking (DU) or Risk Assessed Payment Schedules (RAPS), and maintain or secure an LC with a dollar determined by DSCA. In addition to the LC, the partner will be required to maintain a cash reserve in the FMS Trust Fund. When determining the value of the LC and the cash reserve, DSCA Financial Policy (FP) in conjunction with the DSCA Country Finance Director (CFD), and approval by DSCA Financial Policy and Regional Execution, will consider the average monthly disbursement based on a 12 month average, maximum monthly payment amount for the year prior to the LC request, payment frequency (monthly, quarterly, or semi-annually), the value of the partner's FMS program, the time required by the partner and bank to make payment and replenish the LC, and any other factors pertinent to the partner's FMS program.

C9.7.1.2.1.1.2. Replenishment. Within 15 days of drawdown, the partner must replenish the LC to the original dollar value. After each quarterly replenishment, the bank or FMS partner will notify the CFD that the replenishment occurred. Reoccurring failure to replenish the LC in a timely manner will result in revocation of the partner's eligibility to use an LC, and/or DSCA issuing a demand letter to the bank for payment under the LC, which may include the remaining balance of the Total Case Value(s).

C9.7.1.2.1.1.3. Adjustments to LC Value and Cash Reserve. Not less than once per year, or on an as-needed basis, the CFD shall evaluate if the value of the LC and cash reserve are sufficient to cover the partner's FMS program, in accordance with the requirements established during the initial LC implementation. If the LC and cash reserve are insufficient, or will soon be insufficient, due to an increase in the partner’s average disbursement, or an expected increase in the FMS program, the partner will be required to increase the dollar value of the LC and the cash reserve, to cover the changed requirements, within 30 days of notification of the needed increase. The CFD shall notify the partner of the required increase to the LC within 15 days of the completion of the assessment. A decision by the partner to not increase the dollar value of the LC or cash reserve would amount to a withdrawal from the BLOC program, and the partner would revert to the payment method in place prior to BLOC implementation. This action does not exclude the partner from future eligibility in the BLOC program. If the bank decides to not increase the dollar value of the LC, the partner will be required to obtain an LC for the additional amount. In all situations, the partner may be required to increase the cash reserve to serve as working capital while the amendment or new LC is being finalized.

C9.7.1.2.1.1.4. Termination. If payment is not made within 30 days of the DD645 quarterly bill or the DSCA Special Bill, DSCA may issue a demand letter to the bank for payment. The Memorandum of Understanding (MOU) between the partner and DSCA will provide that, at any time, DSCA may issue a demand letter to the bank that issued the LC. If DSCA is required to issue a demand letter due to the partner’s failure to make a timely payment under a relevant LOA, then DSCA may terminate the partner’s authorization to use the LC program. If the partner wishes to terminate its use of the LC, it must send a notification letter to the DSCA CFD at least 90 days in advance of termination. The partner will revert to making national funds payments to the FMS Trust Fund at that time, or sooner if it chooses.

C9.7.1.2.1.2. Letter of Credit for Supplementation of National Funds. The LC may serve as a supplement to national funds to pay for the partner’s LOA(s) and shall be treated the same as national funds. The partner may stipulate the level of funds that are provided from national funds, and from the LC, as long as the quarterly payments are made in a timely manner.

C9.7.1.2.1.2.1. Requirements. In order to utilize an LC as a supplement to national funds payments required under applicable LOAs, the partner must be eligible for and utilizing DU or RAPS, and secure an LC with a dollar value no less than the amount the partner intends to pay directly from national funds over the lifetime of the case. The partner must maintain six months of available cash, based on the 12 month average disbursement, at all times. Partners with a Special Bill must maintain an available cash level no less than one half the cash reserve requirement built into its Special Billing Arrangement (SBA). The cash requirement is in addition to the LC. The partner is responsible for ensuring the funds are transferred from the bank to their FMS Trust Fund at the time they receive the DD645 quarterly bill, or the DSCA Special Bill.

C9.7.1.2.1.3. Letter of Credit for Payment Schedules. For payment schedules secured by an LC, refer to CAPS in SAMM Section C9.8.5. The LC may be used in place of, or in addition to, a Standby Letter of Credit.

C9.7.1.2.1.4. Other Uses. Other uses for an LC may be proposed on an ad hoc basis and will be evaluated with input and guidance from DSCA FPRE, CFD, FP, and other relevant stakeholders. Final approval is at the discretion of the DSCA Office of Business Operations Assistant Director.

C9.7.1.2.2. Letter of Credit - Termination Liability. The use of an LC does not change the requirements for termination liability as required under the term of sale for which the LC is being applied.

C9.7.1.2.3. Billing. Billing will occur in accordance with SAMM Section C9.10., with the DD645 or Special Bill being sent to the purchaser, not the bank. It is the responsibility of the purchaser to ensure the bank makes payments to the FMS Trust Fund in a timely manner. In the event a demand letter is issued, DSCA will send the demand letter directly to the bank and provide a courtesy notification to the FMS partner.

C9.7.1.2.4. Eligibility. DSCA FP will determine the partner's eligibility for the use of an LC, and will ensure that a proposed bank is qualified to issue or confirm an LC in accordance with SAMM Section C9.9.1.5.4.5.2.4.1. Criteria considered to determine the partner's eligibility to use an LC will include: the intended use of the LC, dollar value of the LC, dollar value of the partner's FMS program, the partner's DU or RAPS status; the partner's payment history, and bank eligibility.

C9.7.1.2.5. Letter of Credit Documents.

C9.7.1.2.5.1. Letter of Credit. Partners may obtain an LC issued by an eligible bank. The LC is a formal and independent undertaking issued by a bank to the FMS purchaser, with DSCA as the sole "beneficiary" of the LC. The LC shall specify the responsibilities of the bank and the partner, and establishes the ability for DSCA to draw upon the LC. The LC, in effect, serves as the bank's guarantee of payment to DSCA, on behalf of the partner, to make timely quarterly payments on an FMS LOA(s) in accordance with the DD645 or SBA.

C9.7.1.2.5.2. Memorandum of Understanding. The MOU governs the relationship and responsibilities of DSCA and the partner. The MOU must be negotiated and signed prior to implementation of the LC. The MOU should include the required value of the LC, the funds required in the partner's FMS Trust Fund or Interest Bearing Account, the circumstances and process for amendments to the LC value, replenishment for routine payments, the timeline and actions for payment, insufficient LC funds, and stipulations regarding the disbursement schedule in the situation where the partner utilizes an LC as a supplement to making payments with national funds on FMS cases.

C9.7.1.2.5.3. Demand for Payment (Drawdown). The demand for payment is a letter that DSCA presents 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 LC. It is the responsibility of the partner to ensure the bank makes timely payments. A demand for payment letter would only be used by DSCA in the event that payment was not received by its due date.

C9.7.1.2.5.3.1. The demand for payment letter shall be the only document necessary for DSCA to request payment from the bank.

C9.7.1.2.5.4. Letter of Credit Status Report. The DSCA CFD will maintain, monitor, and track the issuance, activity, and processing of all LC documents and associated LOAs, amendments, and modifications covered by the LC. Not less than yearly, the CFD shall report on the status of the LC to DSCA FPRE. The report should include the dollar value of the LC, the average quarterly disbursement of the partner's FMS program, the utilization of the LC, and any causes for concern related to the ability of the partner or bank to make payments as required. The CFD shall determine if the value of the LC is sufficient to cover the partner's FMS program or if an amendment is required.

C9.7.1.2.6. Roles and Responsibilities.

C9.7.1.2.6.1. Issuing Bank. Issuing bank responsibilities listed at SAMM Section C9.9.1.5.4.4.3.

C9.7.1.2.6.2. Confirming Bank. Confirming bank responsibilities listed at SAMM Section C9.9.1.5.4.4.4.

C9.7.1.2.6.3. Country Finance Director. The DSCA CFD shall coordinate the signing of an MOU between the partner and DSCA. The CFD will determine the required value of the LC and will work with the partner and the issuing bank to acquire a draft of the LC. The CFD is responsible for informing the Security Cooperation Office (SCO), Implementing Agencies (IAs) and FMS partner of DSCA's decision regarding the partner's eligibility to use an LC. The CFD is also responsible for issuing the demand letter.

C9.7.1.2.6.3.1. The CFD will monitor the LC value to ensure the LC is sufficient to make necessary payments to the USG. The CFD will monitor collections in the monthly case report to ensure that the partner or bank has made the required payments at the appropriate times. Should there be any issues with payments, the CFD will coordinate with the Defense Finance and Accounting Service (DFAS), the partner, and the bank to address concerns. This requirement ensures the bank is making timely payments on behalf of the partner.

C9.7.1.2.6.4. Financial Policy. DSCA 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. FP will review and provide concurrence on the CFD's assessment of the LC value and the partner's for eligibility for BLOC. Based on its findings, FP will inform the CFD of its approval or disapproval of the partner's LC request.

C9.7.1.2.6.5. Implementing Agencies. The IAs will communicate the request to use a unique payment schedule on the LOA checklist upon MILDEP Approval (MILAP), and subsequently upload documentation into the Case Tracking System for review and approval by the Case Writing Division (CWD).

C9.7.1.2.6.6. Defense Finance and Accounting Service. If DFAS and the CFD determine payments are not being made as required, DSCA with support from DFAS will issue a demand letter against the LC from the issuing/confirming bank.

C9.7.1.2.7. Payment History. In order to establish a positive payment history, the partner should work with the issuing bank to transmit proof of the partner's repayment to the issuing bank.

C9.7.1.2.8. Amendments and Expiration Date Extension. Refer to SAMM Section C9.9.1.5.4. as the same applies to an LC.

C9.7.1.2.9. Revocation. In the event of recurring incomplete or untimely payments, DSCA may demand the full value of the LC and revoke the partner's eligibility to use an LC. When an LC is established for routine payments, DSCA will require the partner to deposit national funds in the FMS Trust Fund or Interest Bearing Account. When an LC is established to supplement national funds on one or more LOAs or under CAPS, DSCA may issue a demand letter for the full value of the LC and require "cash with acceptance" for any remaining amount due on the LOA.

C9.7.1.2.10. Termination. In all cases, the termination of the LC prior to its expiration date or non-renewal requires written notification to DSCA no later than 90 days prior to termination or expiration.

C9.7.1.2.10.1. Termination. DSCA may issue a demand letter to the bank if payment from the bank to the FMS Trust Fund does not occur in a timely manner, as required by the payment schedule, DD645, or DSCA Special Bill. If a demand letter is required, DSCA may terminate the partner's eligibility for BLOC, and the partner would revert to making payments with national funds. If the partner wishes to terminate use of the LC, it must send a notification letter to the DSCA CFD at least 90 days in advance of the date in which the LC is to be terminated. Subsequent to the termination of the LC, the partner would revert to making national funds payments to the FMS Trust Fund.

C9.7.1.2.10.2. Termination due to Bank Eligibility. If either the issuing bank or confirming bank, as appropriate, ceases to satisfy the eligibility criteria while the LC is in effect, DSCA will notify the partner that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the LC for the remaining amount of the LC. Otherwise, DSCA will require a new LC from a qualifying bank for the uncollected Total Case Value, or will modify the relevant FMS case to require the partner to use national funds to pay the remaining amount of the FMS case.

C9.7.1.2.10.3. Termination by the Bank. Should the issuing bank communicate its decision to revoke the LC, the partner will be required to provide a new LC with another qualifying bank for the required amount, or will be required to pay the remaining amount from national funds per the Terms of Sale on the LOA.

C9.7.1.2.11. Closeout. Closeout of an LC, and Confirmation, when relevant, can be prompted by either its termination or expiration. Within 30 days after either event, the bank will be requested to submit to the DSCA Chief Financial Officer (CFO), and to the authorized partner official, a written notice that confirms the LC and Confirmation were closed and that the bank is no longer carrying this contingent liability on its books. Within 15 days after receiving the bank's notice, DSCA will send written confirmation to the partner and the bank that it has also closed the LC and Confirmation on its records. Written confirmation to the partner will also include information on how future funding requirements will be billed until a new LC is implemented. If DSCA executes a demand for payment and the availability of funds does not cover the entire amount required, the partner will have 30 business days to ensure the required amount is fully paid as requested by DSCA.

C9.7.1.2.11.1. If the partner requests that the LC not be extended, not later than 30 business days prior to the expiration date of the LC the partner may request that DSCA either draw the entire amount from the LC or Confirmation and/or make available funds for the required amount for deposit into its FMS Trust Fund account. If the amount available under the LC or Confirmation is not sufficient to cover all funds required at the time of the LC or Confirmation expiration, the partner is responsible for depositing the difference in the amount not less than 30 days prior to the expiration date.

2. Amend **C5.T3. Row 9** to read:

"An appropriate source of funding is identified to indicate the appropriate terms of sale (e.g. national funds, Foreign Military Financing non-repayable, etc.). Request for Bank Letter of Credit is approved."

Attachment 2: Implementation Guidance
Bank Letter of Credit

I. Policy

1. Defense Security Cooperation Agency (DSCA) Policy Memo 23-13, Bank Letter of Credit

2. DSCA Policy Memo 22-47, New Term of Sale, Credit Assured Payment Schedules, January 26, 2023

3. Security Assistance Management Manual (SAMM) Chapter 9, Section 7.7.1.2., Bank Letter of Credit

II. Implementation Guidance for the use of an LC for Routine Payments

A. Applicability

1. The use of a Letter of Credit (LC) to replace the partner's funds held in the Foreign Military Sales (FMS) Trust Fund or Interest Bearing Account is limited to partners with Dependable Undertaking (DU) status), or partners with Risk Assessed Payment Schedules (RAPS) status and a sufficient payment history.

B. Responsibilities

1. The partner and responsible parties must meet the requirements and follow the implementation guidance required for the Term of Sale (ToS) under which they intend to use the LC.

2. The Security Cooperation Office (SCO), Implementing Agency (IA), or partner may submit an official request to obtain and use an LC to the DSCA Office of Business Operations, Country Finance Director (CFD), along with clarification regarding the ToS they intend to use in conjunction with the LC. The request should contain the issuing bank and confirming bank, if applicable, that will provide the LC, along with points of contact for the bank. The request should also contain an explanation of how the partner intends to use the LC – i.e., routine payments, supplementation of national funds, or payment schedules.

3. Upon receiving the initial request, DSCA Financial Policy (FP), in conjunction with the CFD and the DSCA Deputy Assistant Director for Financial Policy and Regional Execution (Deputy AD FPRE), will determine the required value of the LC and cash reserve.

4. The CFD will coordinate the signing of a Memorandum of Understanding (MOU) between the partner and DSCA.

5. The CFD will then work with the partner and the associated bank to acquire a draft of the LC. The MOU, draft LC, and the request letter are required for approval.

6. The LC should be of sufficient value to mitigate risk to the USG. Per SAMM Section C9.3.8., the Letter of Offer and Acceptance (LOA) indicates that prices for articles and/or services are estimates.

    i. The value of the LC should be no less than three times the average quarterly disbursement for the partner's FMS program. Termination Liability (TL) should not be included in this base calculation for the value of the LC.

    ii. TL may be included in the value of the LC but must be held in reserve and not used for routine payments. The MOU must stipulate that the TL value is held in reserve and will only be disbursed by the bank if a demand letter is issued by DSCA.

7. Once the request letter, MOU, and draft LC are gathered, organized, and reviewed, the CFD will email the files electronically to the DSCA International Operations - Regional Execution (IOPS REX) Country Portfolio Director (CPD), requesting package review and concurrence to proceed with the LC approval process.

8. Once IOPS REX has concurred with the package, the CFD will forward the package to FP for approval.

9. Upon FP approval, the CFD shall submit the package to Deputy AD FPRE who will review the package, approve as applicable the partner's use of an LC, and notify the CFD of the decision. The CFD will then submit the package to the DSCA Office of Business Operations Assistant Director (OBO AD) for final review, approval, and signature of required documents.

10. The CFD will notify the SCO, IA, and partner of the decision and reiterate the partner's responsibility in ensuring the bank makes payments and the LC is replenished, per policy and the MOU.

    i. The CFD will also work with the partner to reduce the funds held in the FMS Trust Fund or Interest Bearing Account, with the preferred course of action to use the funds for disbursements.

11. The CFD will begin monitoring the LC as outlined in the section below.

C. Monitoring

1. The CFD will begin monitoring the LC and ensure the LC is replenished after each drawdown via a confirmation from the bank.

    i. See the replenishment section for more information.

2. Once per year, the CFD will evaluate the value of the LC and the average quarterly disbursement and ensure the value of the LC is of sufficient value in accordance with the requirements determined when the LC was approved. If the value needs to be increased, the CFD will notify the partner the LC needs to be amended.

3. DSCA may revoke the partner's LC eligible status, should payments be missed. The LC will be leveraged when the partner does not make a routine payment or does not have sufficient funds to cover an out-of-cycle bill.

D. Payments

1. Per SAMM Section C9.7.1., funds from the LC will be treated the same as national funds and are subject to the same requirements and procedures for the ToS listed on the LOA.

2. Payments from the LC can be used in combination with national funds or other funding sources. It is the responsibility of the partner to communicate to the bank the amount to deposit into the FMS Trust Fund.

3. Bills will be sent to the partner who will then initiate the process with the bank to ensure payments are made in a timely manner. The bank will notify the CFD once a deposit is made.

4. DSCA reserves the right to draw on the LC or Confirmation to make funds available to support the partner's FMS program. The CFD will provide notification to the partner if a demand letter is issued to drawdown from the LC.

E. Replenishment

1. Within 15 days of drawdown, the partner will transfer funds to the bank to replenish the LC to its original value.

2. The bank should notify the CFD in writing within 20 days of drawdown that the replenishment has occurred.

3. If the partner fails to replenish the LC within the given time, the CFD will work with the partner to identify the cause for failure to replenish the LC, and take immediate action to complete replenishment.

4. If the partner fails to replenish the LC after two consecutive drawdowns, the partner will be required to deposit cash in the FMS Trust Fund to bring the balance to a satisfactory level as determined by DSCA standard operating procedures.

5. Repeated delays in replenishment could result in revocation of the partner's ability to use an LC, and revert to holding national funds in the FMS Trust Fund or Interest Bearing Account.

F. Amendments and Modifications to the LC

1. Amount Increases Requiring Amendments to LC and Confirmation. If the LC needs to be increased due to an increase in the average quarterly disbursement, then DSCA will notify the partner in writing that an increase is necessary and allow the partner ten business days to reply as to whether the partner prefers that the LC and Confirmation be increased via an amendment or if the partner will deposit the required increment. If the partner replies that an amendment should be processed, the partner will submit in writing a notice to the issuing bank and/or confirming bank, with a copy to the DSCA. In that notice, the partner will request the bank reply within 15 business days. The bank's reply to the partner and DSCA should either: (1) provide a formal amendment that indicates the bank's willingness to raise the amount per the request; or (2) provide notice to the partner and DSCA that the requested increase to the amount will not be accommodated by the bank. In the event of scenario (1), the amendment will be accepted. In the event of scenario (2), or if no reply from the bank is received within 15 business days, the partner will notify DSCA and the increased adjustment will be captured in the partner's official billing statement from the next quarterly or special bill, until/unless a separate LC and Confirmation with a different bank for the increment is obtained.

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 LC and Confirmation, if applicable, up to the credit limit as established by the bank.

4. Notice of Increase or Decrease. As a courtesy, DSCA will make best efforts to send a notice to the 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 LC and Confirmation, if applicable, is warranted, the CFD shall notify the FMS partner in writing. The partner then has the option to either approve a decrease to the LC and Confirmation, or leave the amount unchanged. The 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 partner, DSCA shall not send the request for decrease to issuing/confirming bank. If the 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 LC and Confirmation by presenting a Demand for Automatic Reduction (Annex G of the SAMM SBLC MOU template).

G. Expiration Date Extension

1. For Expiration Date Extension, refer to SAMM Section C9.9.1.5.4.23.3. The same process applies for an LC as an SBLC.

H. Termination Provisions

1. Termination of an LC 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 LC is in effect, DSCA will notify the partner that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the LC for the remaining amount of the LC, as applicable. Otherwise, DSCA will require another LC for the remaining TCV amount to be issued by a bank that satisfies the eligibility criteria, or will modify the relevant FMS case to require the partner to use national funds for the outstanding value of the LOA.

I. Closeout.

1. For closeout of the LC refer to SAMM Section C9.9.1.5.4.28. The same process for SBLC applies to an LC.

III. Implementation Guidance for the use of an LC for Supplementation of National Funds

A. Applicability

1. The use of an LC to supplement national funds on an LOA is available to any partner that obtains an LC from a qualified bank, regardless of their DU or RAPS eligibility status. A partner's DU or RAPS eligibility status may allow for an LC at an amount that is less than the Total Case Value (TCV) of applicable LOAs, as outlined in Section B, Responsibilities.

B. Responsibilities

1. The partner and responsible parties must meet the requirements and follow the implementation guidance required for the ToS under which they intend to use the LC.

2. The SCO, IA, or the partner may submit an official request to obtain and use an LC to the CFD, along with clarification regarding the ToS they intend to use in conjunction with the LC. The request should contain the issuing bank and confirming bank, if applicable, that will provide the LC along with points of contact for the bank. FP will confirm the bank meets the criteria outlined in SAMM Section C9.9.1.5.4.5.2.4.1.

3. The CFD will coordinate the signing of an MOU between the partner and DSCA.

4. The CFD then works with the partner and the associated bank to acquire a draft of the LC. The MOU, draft LC, and the request letter are required for approval.

5. The LC should be of sufficient value to mitigate risk to the USG. Per SAMM Section C9.3.8., the LOA indicates that prices for articles and/or services are estimates.

    i. For partners with DU or RAPS status, the dollar value of the LC must be no less than the difference between the TCV for the associated LOA(s), and the amount the partner intends to pay from national funds over the life of the case(s).

ii. If the partner is not authorized to use payment schedules under DU or RAPS, and will be using the CAPS term of sale, the 25% initial deposit plus the value of the LC must be equal to or greater than the TCV. See CAPS policy per SAMM Section C9.8.5.

a. TL may be included in the value of the LC but must be held in reserve and not used for routine payments. In order for the LC to be used in lieu of TL prepayments, the LC must stipulate that the TL value be held in reserve and only be disbursed by the bank if a demand letter is issued by DSCA. Such language will also be included in the MOU between the partner and DSCA.

6. Once the request letter, MOU, and draft LC are gathered, organized, and reviewed, the CFD will email the files electronically to the IOPS REX CPD requesting package review and concurrence to proceed with the LC approval process.

7. Once IOPS REX has concurred on the package, the CFD will forward the package to FP for approval.

8. Upon FP approval, the CFD shall submit the package to Deputy AD FPRE who will review the package, approve as applicable the partner's use of an LC, and notify the CFD of the decision. The CFD will then submit the package to OBO AD for final review, approval, and signature of required documents.

9. The CFD will notify the SCO, IA, and partner of the decision.

10. Once an LC is in place, development of the LOA can proceed.

i. The CFD will coordinate with the IA to obtain the applicable case identifier, and then enter a DSAMS Case Remark identifying the use of an LC.

C. Monitoring

1. The CFD will monitor the LC value, the difference between the DD645 quarterly bill or Special Bill, the payment schedule, and the total uncollected value of the LOAs, modifications, and amendments covered by the LC.

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 concern. This is a positive monitoring requirement that will ensure the partner is making complete and timely payments.

i. The CFD will work with both DFAS and the 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 LC for the quarterly payment.

3. After four payments are missed, which equates to a full year's worth of payments, DSCA may revoke the partner's LC eligible status. The LC 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.

i. The CFD should request the partner provide proof of repayment to the bank to help build their positive payment history that could be favorable in a future DU determination.

D. Payments

1. Per SAMM Section C9.7.1., funds from the LC will be treated the same as national funds and are subject to the same requirements and procedures for the term of sale listed on the LOA.

2. Payments from the LC can be used in combination with national funds or other funding sources. It is the responsibility of the partner to communicate to the bank the amount to deposit into the FMS Trust Fund.

3. DSCA may draw on the LC or Confirmation to make funds available to support the partner's FMS program. The partner remains responsible for providing payments to the FMS Trust Fund if the following processes fail for any reason.

E. Drawdown Process

1. For the LC drawdown process for the LC, refer to SAMM Section C9.9.1.5.4.16. The drawdown process for an SBLC is applicable to an LC.

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.

F. Amendments and Modifications to the LC

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

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 LC and Confirmation, if applicable, up to the credit limit as established by the bank.

4. Notice of Increase or Decrease. As a courtesy, DSCA will make best efforts to send a notice to the partner that it will make a demand request to the bank for an increase or

decrease to the partner 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 LC and Confirmation, if applicable, is warranted, the CFD shall notify the partner in writing. The partner then has the option to either approve a decrease to the LC and Confirmation or leave the amount unchanged. The 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 partner, DSCA shall not send the request for decrease to the issuing/confirming bank. If the 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 LC and Confirmation by presenting a Demand for Automatic Reduction (Annex G of the SAMM SBLC MOU template).

G. 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, the CFD may discuss the performance of the LOA with the IA to determine if an updated payment schedule is warranted. If the collection is 33% or greater than disbursements, the CFD is required to ask for a revision of the payment schedule. 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 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 the partner.

2. At a minimum, the CFD will review the applicable payment schedules on an annual basis.

H. Expiration Date Extension.

1. For Expiration Date Extension, refer to SAMM Section C9.9.1.5.4.23.3. The same process applies for an LC as an SBLC.

I. Termination Provisions

1. Termination of an LC 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 LC is in effect, DSCA will notify the partner that the bank no longer meets the eligibility criteria. DSCA reserves the right to draw upon the LC for the remaining amount of the LC, as applicable. Otherwise, DSCA will require another LC for the remaining TCV amount to be issued by a bank that satisfies the eligibility criteria, or will modify the relevant FMS case to require the partner to use national funds for the outstanding value of the LOA.

J. Closeout

1. For closeout of the LC refer to SAMM Section C9.9.1.5.4.28. The same process for SBLC applies to an LC.

IV. Implementation Guidance for the use of an LC for Payment Schedules.

A. Refer to DSCA Policy 22-47 for implementation guidance related to Credit Assured Payment Schedules.