



DEFENSE SECURITY COOPERATION AGENCY

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9 Nov 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: Defense Security Cooperation Agency Policy Memorandum 23-58, Exclusion of
Production Line Shutdown Costs in Nonrecurring Cost Calculation [SAMM E-
Change 653]

Reference:

- a) 7000.14-R, Financial Management Regulation (FMR), Volume 15, Chapter 7, Pricing, August 2022
- b) Department of Defense Directive (DoDD) 2140.02, Recoupment of Nonrecurring Costs on Sales of U.S. Items, May 2018
- c) Title 48, Chapter 99 of the Code of Federal Regulations “Federal Acquisition Regulation”, section 9904, Cost Accounting Standards, July 2023

The attached memorandum updates the policy guidance to prescribe the exclusion of production line shutdown costs from the calculation of nonrecurring cost charges on major defense equipment (MDE) in accordance with references (a), (b) and (c). The policy in the attachment is incorporated into the DSCA Security Assistance Management Manual (SAMM) at <https://samm.dsca.mil> and is effective immediately.

If you have questions concerning this guidance, please contact Mr. Samuel Malcolm, DSCA (Office of Business Operations, Financial Policy & Regional Execution Directorate, Financial Policy Division (OBO/FPRE/FP)) at (202) 603-9088, samuel.j.malcolm.civ@mail.mil. If you have general questions on FMS case development or the SAMM chapter five, please contact Ms. Michelle Davis, DSCA (Office of Strategy, Plans, and Policy, Execution Policy and Analysis Directorate (SPP/EPA)) at (703) 697-9052, michelle.davis13.civ@mail.mil.

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Date: 2023.11.09 11:04:40 -05'00'

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

Attachment:
SAMM E-Change 653

Security Assistance Management Manual E-Change 653

Exclusion of Production Line Shutdown Costs in Nonrecurring Cost Calculation

1. Update SAMM Section C5.1.3.2:

From:

C5.1.3.2. Significant Military Equipment and Major Defense Equipment Requests.

Significant Military Equipment (SME) and Major Defense Equipment (MDE) requests that originate in-country must be addressed to DSCA (IOPS) and the cognizant DoD Component with information copies to the CCMD. Requests regarding SME that originate with purchaser representatives in the United States must be addressed to DSCA (IOPS) and the cognizant DoD Component with information copies to the CCMD and the SCO. If it appears that the SCO is not on distribution for a purchaser's request, the DoD Component must furnish a copy to the SCO as quickly as possible.

Arms Export Control Act AECA, section 47, ([22 U.S.C. 2794](#)), defines the terms "defense article" and "defense service." Certain defense articles and services are enumerated on the United States Munitions List (USML). Those defense articles designated SME are marked with an asterisk (*) on the USML. Any SME that has a nonrecurring research and development cost of more than \$50 million or a total production cost* of more than \$200 million is considered MDE. See [Appendix 1](#) for Nonrecurring Cost Recoupment Charges for identified MDE.

*Includes DoD expenditures for preproduction engineering; rate and special tooling; special test equipment; production engineering; product improvement; destructive testing; and pilot model production, testing, and evaluation. Includes costs of any engineering change proposals initiated before the date of calculations of the NC's recoupment charge.

To:

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production cost* of more than \$200 million is considered MDE. See [Appendix 1](#) for Nonrecurring Cost Recoupment Charges for identified MDE.

*Includes DoD expenditures for preproduction engineering; rate and special tooling; special test equipment; production engineering; product improvement; destructive testing; and pilot model production, testing and evaluation, **and license costs**. Includes costs of any engineering change proposals initiated before the date of calculations of the NC's recoupment charge. **Detailed definitions of each of these categories can be found in the [Financial Management Regulation \(DoD FMR\) Volume 15, Chapter 7 Section 15.5.3](#). Note that production line shutdown costs are not included in the nonrecurring production cost pool as defined there. As such, production line shutdown costs or any allocation thereof are not to be included in the nonrecurring production cost pool for the calculation of the nonrecurring cost charge.**