



## DEFENSE SECURITY COOPERATION AGENCY

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WASHINGTON, D.C. 20301-2800

June 13, 2024

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  
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DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY  
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEFENSE THREAT REDUCTION AGENCY  
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DIRECTOR FOR SECURITY ASSISTANCE, DEFENSE FINANCE  
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OPERATIONS  
DIRECTOR OF CYBERSECURITY DIRECTORATE AND DEPUTY  
NATIONAL MANAGER FOR NATIONAL SECURITY  
SYSTEMS, NATIONAL SECURITY AGENCY

SUBJECT: Defense Security Cooperation Agency Policy Memorandum 24-58, Pricing of  
Defense Articles Sold via Foreign Military Sales from Stock [SAMM E-Change  
705]

References: (a) Office of the Secretary of Defense, Pricing of Defense Articles Sold via Foreign  
Military Sales from Stock, 30 April 2024

This policy memorandum updates the Security Assistance Management Manual (SAMM)  
to incorporate the guidance outlined in reference (a). This memorandum is effective  
immediately. The policy in the attachment is incorporated into the DSCA SAMM  
<https://samm.dscamail.mil>.

If you have questions contact the Financial Policy and Regional Execution, Financial  
Policy Division (OBO/FPRE/FP), [dscamail.mil](mailto:dscamail.mil).

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Chief Operating Officer and Chief Financial Officer  
Defense Security Cooperation Agency

Attachment:  
SAMM E-Change 705

**Attachment 1: Security Assistance Management Manual E-Change 705  
Pricing of Defense Articles Sold via Foreign Military Sales from Stock**

1. Update SAMM Section C9.3.1.1.

FROM:

**C9.3.1.1. Recovery of Cost.** DoD Components must recover their costs for executing security assistance (SA) programs in accordance with the AECA and DoD Financial Management Regulation (FMR). For indirect cost, only those additional costs that are incurred by the USG in furnishing the assistance should be recovered. Refer to the DoD FMR, Volume 11a, Chapter 1, General Reimbursement Policy for guidance on determining the amounts to be reimbursed and DoD FMR, Volume 15, Chapter 7, Pricing, on how to price defense articles and services.

TO:

**C9.3.1.1. Recovery of Cost.** DoD Components must recover their costs for executing security assistance (SA) programs in accordance with the AECA and DoD Financial Management Regulation (FMR). For indirect cost, only those additional costs that are incurred by the USG in furnishing the assistance should be recovered. Refer to the [DoD FMR, Volume 11a, Chapter 1, General Reimbursement Policy](#) for guidance on determining the amounts to be reimbursed and [DoD FMR, Volume 15, Chapter 7, Pricing, and Section C9.4.8.](#) on how to price defense articles and services.

2. Add SAMM Section C9.4.8. and subsections.

**C9.4.8. Defense Articles Sold via Foreign Military Sales from Stock.** When selling defense articles to eligible foreign countries and international organizations from DoD stock under Section 21 of the Arms Export Control Act (AECA), as amended ([22 U.S.C. 2761](#)), the IA must determine whether to categorize an FMS sale as one with intent to replace or not to replace.

**C9.4.8.1. Sale Without Intent to Replace the Defense Article.** If, at the time an agreement for sale of a defense article under Section 21 was entered into, the IA does not intend to replace the defense article being sold, then the price charged to the purchaser will be the actual value of the defense article being sold, which is DoD's acquisition cost of the item being sold, less any depreciation.

**C9.4.8.1.1.** The proceeds from sales of defense articles sold without intent to replace that are paid with national funds of the FMS purchaser must be deposited into the Special Defense Acquisition Fund (SDAF), consistent with Section 51 of the AECA ([22 U.S.C. 2795](#)) and guidance in the DoD Financial Management Regulation (FMR) (see [Volume 3, Chapter 15, subparagraph 3.5.6](#)). The proceeds from sales of defense articles sold without intent to replace that consist of U.S. grant assistance to include

Foreign Military Financing and funds for Building Partner Capacity programs and activities, must be deposited into the U.S. Treasury as miscellaneous receipts, per [31 U.S.C. 3302\(b\)](#).

**C9.4.8.2. Sale With Intent to Replace the Defense Article.** If, at the time an agreement for sale of a defense article under Section 21 is entered into, the IA intends to replace the defense article being sold with any defense article to address a loss of capability or readiness from such sale, then the amount charged to the purchaser for the cost of the replacement article must be one of the following:

**C9.4.8.2.1.** The estimated amount to replace the article sold with the identical type, model, and series of defense articles, less any depreciation of the article sold, OR

**C9.4.8.2.2.** When replacement with an article described in [Section C9.4.8.2.1](#) will not meet IA requirements, the estimated amount necessary to replace the article sold with a newer model, modified version, or variant (refer to [Section C9.4.8.4](#)) that serves as a functional equivalent to the defense article that is being sold, less any depreciation of the article sold; OR

**C9.4.8.2.3.** When a replacement article described in either [Section C9.4.8.2.1](#) or [Section C9.4.8.2.2](#) is not obtainable, the amount equal to the last acquisition cost of the article sold, less any depreciation of such article.

**C9.4.8.3.** The proceeds of defense articles sold with intent to replace must be deposited into the current procurement account necessary to facilitate the IA's replacement of the article (see [DoD FMR Volume 15, Chapter 3, subparagraph 9.2](#)).

**C9.4.8.4. Definition of a Newer Model, Modified Version, or Variant.** For the purpose of pricing defense articles described in [Section C9.4.8.2.2](#), a new model, modified version, or variant of a defense article sold is that article's "functional equivalent" if it allows the IA to meet the same operational objectives as the article sold under similar constraints or limitations (e.g., AIM-9M replaced with AIM-9X). When the desired replacement article is designed to accomplish a particular operational objective in an advanced or fundamentally different way (e.g., a guided missile vs. an unguided missile), or to accomplish distinct operational objectives beyond those made possible by the article sold (e.g., aircraft capable of vertical take-off and landing vs. horizontal only), the desired article will not be considered a functional equivalent.

**C9.4.8.4.1.** In cases where the IA intends to acquire such an article as a replacement for an article sold under Section 21, the amount charged to the purchaser must still comply with the pricing parameters detailed in [Sections C9.4.8.2.1](#) through [C9.4.8.2.3](#).

**C9.4.8.5. FMS Purchase from DoD Stock vs. Other Means of Procurement.** When replacement sales under Section 21 result in a price to the purchaser that is substantially higher than the actual value of the article sold, the IA administering FMS will ensure that the purchaser is fully aware of the cost-value differential and clearly desires to proceed with a transaction despite such differential prior to entering into any binding FMS

agreement (e.g., a Letter of Offer and Acceptance). In such cases, FMS purchasers should understand that the price reflects the requirement for the U.S.G. to minimize readiness impacts to the DoD when executing the FMS program, and that the purchaser may realize greater value by choosing to forego an FMS purchase from DoD stock and seek to obtain the desired articles through other means.

**C9.4.8.6. Munitions.** Munitions that are serviceable retain their full value and should not be depreciated in accordance with standard depreciation timetables. Munitions are defined in [10 U.S.C. 101\(e\)\(4\)](#). Notwithstanding this definition, provisions in the SAMM that restrict sales of specific categories of munitions under the FMS program (e.g., [Section C4.5.](#)) remain applicable.