



DEFENSE SECURITY COOPERATION AGENCY

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November 20, 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
INTERNATIONAL PROGRAMS
DIRECTOR, DEFENSE CONTRACT MANAGEMENT AGENCY
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
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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 24-86, Updates for
Standby Letter of Credit Change Guidance in the Security Assistance Management
Manual (SAMM) Chapter 9 [SAMM E-Change 729]

Effective immediately, this memorandum updates the Standby Letter of Credit Policy in the SAMM Chapter 9. The new policy expands eligible bank requirements for the issuance of Standby Letters of Credit (SBLC) and clarifies the circumstances under which a foreign partner may use a foreign bank as an issuing bank. Moreover, the policy updates confirming bank requirements to be consistent with changes to the issuing bank requirements.

If you have questions on this guidance, please contact the Financial Policy & Regional Execution Directorate, Financial Policy Division (FPRE/FP) at dsca.ncr.obo.list.fpre-fp@mail.mil. For questions relating to the SAMM, please contact DSCA (Office of Strategy, Plans, and Policy, Execution Policy, and Analysis Directorate (SPP/EPA), dsca.ncr.spp.mbx.epa@mail.mil).

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Glenn Anderson
Acting, Chief Operating Officer and
Chief Financial Officer

Attachment: SAMM E-Change 729

SAMM E-Change 729 - Updates for Standby Letter of Credit Change Guidance

1) Update C9.9.1.5.4.5.2.4.1. as follows:

Current Policy:

C9.9.1.5.4.5.2.4.1. Eligibility Requirements for Issuing Bank. It is preferred that the issuing bank be a U.S. bank that is (1) Federally licensed, (2) U.S.-domestically chartered, and (3) in an "active" status as reported by the Office of the Comptroller of the Currency (OCC). Foreign banks that meet the eligibility requirements in [Table C9.T18.](#) and also use a U.S. Confirming bank may be considered as well.

Revised Policy:

C9.9.1.5.4.5.2.4.1. Eligibility Requirements for Issuing Bank. **DSCA will consider financial institutions that meet the credit rating criteria outlined in [Table C9.T18.](#) and additionally meet the following criteria to serve as an Issuing Bank for an SBLC:**

1. U.S. Bank federally chartered by the Comptroller of the Currency (OCC) that is in an "active" status as reported by OCC or,
2. U.S.-based foreign bank branch that holds an active federal charter from the OCC and meets DSCA evaluation criteria or,
3. New York State licensed, non-OCC regulated bank that meets DSCA evaluation criteria or,
4. Foreign banks that do not meet the requirements in 1 through 3 may request to issue an SBLC in conjunction with a U.S. Confirming bank that meets DSCA evaluation criteria.

DSCA evaluation criteria determines a bank's eligibility using (1) the bank's credit rating (e.g., Moody's), (2) the bank's Common Equity Tier 1 (CET1), (3) the bank's Liquidity Coverage Ratio (LCR), (4) the bank's Asset Concentration, and (5) the FMS Purchaser's Interagency Country Risk Assessment System (ICRAS) rating. A bank with an acceptable evaluation will receive a notification that approves the lender's eligibility to issue an SBLC.

2) Update C9.9.1.5.4.1.1. Standby Letter of Credit as follows:

Current Policy:

C9.9.1.5.4.1.1. Standby Letter of Credit. Eligible Purchasers may choose to use an SBLC issued by an eligible bank in lieu of TL prepayments. At the request of the Purchaser, the SBLC is a formal and independent undertaking issued by a bank to the DSCA as the "beneficiary" of the SBLC that specifies the duties of the bank and the rights of DSCA. The SBLC, in effect, serves as the bank's guarantee of payment to DSCA in the event of partial or full termination of an FMS case by the Purchaser or USG.

Revised Policy:

C9.9.1.5.4.1.1. Standby Letter of Credit. Eligible Purchasers may choose to use an SBLC issued by an eligible bank (see [Section C9.9.1.5.4.5.2.4.1.](#)) in lieu of TL prepayments. At the request of the Purchaser, the SBLC is a formal and independent undertaking issued by a bank to the DSCA as the "beneficiary" of the SBLC that specifies the duties of the bank and the rights of DSCA. The SBLC, in effect, serves as the bank's guarantee of payment to DSCA in the event of partial or full termination of an FMS case by the Purchaser or USG.

3) Update C9.9.1.5.4.5.2.4.2. as follows:

Current Policy:

C9.9.1.5.4.5.2.4.2. Once bank status has been verified using the above requirements, DSCA will then confirm the bank's credit ratings to ensure they meet acceptable thresholds. In short, banks must be rated at a mid-tier investment grade or better. To ensure consistent application, DSCA plans to use the available investment ratings from the Moody's, Standard & Poor's, and/or Fitch, rating service as noted in [Table C9.T18.](#)

Revised Policy:

C9.9.1.5.4.5.2.4.2. **Bank Credit Rating.** Once bank status has been verified using the above requirements, DSCA will then confirm the bank's credit ratings to ensure they meet acceptable thresholds. In short, banks must be rated at a mid-tier investment grade or better. To ensure consistent application, DSCA plans to use the available investment ratings from the Moody's, Standard & Poor's, and/or Fitch, rating service as noted in [Table C9.T18.](#)

4) Update C9.9.1.5.4.5.2.4.2.1. as follows:

Current:

C9.9.1.5.4.5.2.4.2.1. Use of long-term credit ratings is preferred to the use of short-term credit ratings. In addition to the bank rating criteria, the issuer and/or confirming bank must have an Outlook of Positive or Stable from the rating service(s). No exceptions for bank eligibility will be granted for banks that do not meet the standards outlined in [Section C9.9.1.5.4.5.2.4.](#), its subparagraphs, and [Table C9.T17.](#) If the issuing bank fails to meet any of the criteria, DSCA will advise the Purchaser accordingly.

Revised:

C9.9.1.5.4.5.2.4.2.1. Use of long-term credit ratings is preferred to the use of short-term credit ratings. In addition to the bank rating criteria, the issuer and/or confirming bank must have an Outlook of Positive or Stable from the rating service(s). No exceptions for bank eligibility will be granted for banks that do not meet the standards outlined in

Section C9.9.1.5.4.5.2.4., and its subparagraphs. If the issuing bank fails to meet any of the criteria, DSCA will advise the Purchaser accordingly.

5) Update C9.9.1.5.4.5.2.4.3. Eligibility Requirements for the Confirming Bank as follows:

Current:

C9.9.1.5.4.5.2.4.3. Eligibility Requirements for the Confirming Bank. In general, if the U.S. bank serving as the issuing bank is eligible, there will be no need for a confirming bank or a Confirmation. However, if the DSCA CFO approves the use of a foreign bank as an issuing bank, or determines it is in the best interest of the USG to secure additional credit support for the SBLC, then a confirming bank that is either a U.S. bank or U.S.-based foreign bank that meets all the criteria outlined in Section C9.9.1.5.4.5.2.4., its subparagraphs, and Table C9.T18. shall be required to issue the Confirmation. If it is determined that the proposed confirming bank is unsuitable, then DSCA will advise the Purchaser that the proposed bank is not acceptable.

Revised:

C9.9.1.5.4.5.2.4.3. Eligibility Requirements for the Confirming Bank. If the bank serving as the issuing bank meets the requirements in Section C9.9.1.5.4.5.2.4., and its subparagraphs, there will be no need for a confirming bank or a Confirmation. However, if the DSCA CFO determines it is in the best interest of the USG to secure additional credit support for the SBLC, then a confirming bank that is either a U.S. bank or U.S.-based foreign bank branch that meets all the criteria outlined in Section C9.9.1.5.4.5.2.4. and its subparagraphs shall be required to issue the Confirmation. If it is determined that the proposed confirming bank is unsuitable, then DSCA will advise the Purchaser that the proposed bank is not acceptable.