



August 12, 2025

Mr. Christian Hoehner  
Policy Director  
James Comer, Chairman  
Committee on Oversight and Government Reform  
2157 Rayburn HOB, Washington, DC 20515

Subject: FEI Feedback on Draft FY26 NDAA Section 1824 - Matters Related to Cost Accounting Standards (CAS)

- Enclosures:
- (a) Feedback on Draft FY26 NDAA Section 1824 – Matters Related to Cost Accounting Standards provided by former Section 809 Panel Members Barbara Michael and Jim Thomas
  - (b) FEI Letter to Mr. John M. Tenaglia, Principal Director, Defense Pricing and Contracting, Office of the Secretary of Defense dated May 5, 2025, on Streamlining of Defense Acquisition Process
  - (c) FEI Letter to CAS Board dated August 26, 2024, on CASB Case No. 2021-02, Conformance of CAS to GAAP for Compensated Personal Absence and Depreciation of Tangible Capital Assets
  - (d) FEI Letter to CAS Board dated August 26, 2024, on CASB Case No. 2021-01, Conformance of CAS to GAAP for Operating Revenue and Lease Accounting
  - (e) FEI Letter to CAS Board dated August 16, 2024, on CASB Case No. 2021-01, Application of CAS to Indefinite Delivery Vehicles (IDVs)
  - (f) FEI Letter to DCAA and DCMA dated January 8, 2024, on Cost Impact Guidance

Dear Mr. Hoehner,

**Who We Are:**

Financial Executives International (FEI) is a professional association representing the interests of more than 10,000 chief financial officers, treasurers, controllers, tax directors and other senior financial executives from major companies throughout the United States. FEI's Committee on Government Business (CGB) is comprised of senior government contracting compliance and policy leaders from over two dozen major companies supporting the defense industrial base and larger federal acquisition community. The CGB formulates policy opinions for FEI relative to existing or proposed federal legislation and regulation on government contracting issues and other financial-related rules to be followed by private business enterprises providing goods and services, directly or indirectly, to the federal government. These policy opinions represent the views of CGB and not necessarily the views of FEI or its members individually.

## Comments:

As evidenced by the enclosed letters from the last 18 months, FEI CGB firmly supports actions to modernize and simplify the burdensome regulations related to cost accounting standards that add cost to defense procurements and act as a barrier to entry for commercial and non-traditional defense contractors.

FEI CGB is pleased and encouraged that several of the recommendations it supported in its May 2025 letter to Mr. John M. Tenaglia, Principal Director, Defense Pricing and Contracting (Enclosure 2) are reflected in the draft FY26 National Defense Authorization Act (NDAA) Section 1824 – Matters Related to Cost Accounting Standards. Specifically,

- Making structural changes to the CAS Board and providing it with the resources needed to address its responsibilities expediently and in an unbiased fashion,
- Decoupling the monetary threshold for a CAS-covered contract from the Truth in Negotiations Act (TINA) monetary threshold and setting it at a minimum of \$25 million, while eliminating the trigger contract exemption,
- Raising the full CAS-coverage threshold and the disclosure statement threshold to a minimum of \$100 million, and
- Accelerating the activity directed in Section 820 of Public Law 114–328 requiring the CAS Board review CAS and conform them, to the extent practicable, to GAAP.

The purpose of this letter is to recognize FEI CGB’s support for the additional recommendations and feedback provided by former Section 809 Panel members Barbara Michael and Jim Thomas as presented in Enclosure A, as follows:

### **1. Price Adjustments for Changes in Cost Accounting Practice**

FEI CGB strongly supports the recommended revision of Title 41, Section 1503(b). The proposed revision to the draft language addresses the most critical and complex area of CAS administration, namely the method by which a contractor calculates the cost impact when it makes a unilateral change in cost accounting practice. The ability to make timely changes to its accounting practices and systems to remain agile and innovative in the face of changing business needs is one of the key concerns that we hear expressed by senior leaders of the companies within the defense industrial base. This is also one of the reasons many of those leaders call for the elimination of CAS in totality.

It is commonly understood and agreed that the government must be protected from cost shifts resulting from contractor-initiated changes in cost accounting practice that cause increased costs to be charged to cost reimbursable contracts. It is also understood that the government must be protected from paying the same cost twice due to changing practices. However, as evidenced by FEI CGB’s response to the DCAA and DCMA guidance memoranda issued in late 2023 (see Enclosure F), there is still much disagreement over the proper method to calculate increased costs to comply with the prohibition in Section 1503(b) that *“(t)he Federal Government may not recover costs greater than the aggregate increased costs to the Federal Government, as defined by the Board, on the relevant contracts subject to price adjustment...”*.

FEI CGB believes the inclusion of the statement that contracts, or portions of contracts, that are FFP or otherwise not redeterminable, are excluded from the calculation of the adjustment due to a contractor-initiated change in cost accounting practice will greatly simplify the CAS administration process. Additionally, clarifying that the amount of the adjustment cannot exceed the net increased costs paid to the contractor or subcontractor for all changes implemented within the same fiscal year will make the process both equitable and efficient. In combination, these recommendations will remove a significant barrier to entry for firms to participate in the defense industrial base.

Following the issuance of the NDAA with this clarifying language, the CAS Board should be tasked with preparing the necessary guidance and direction within CFR 48 Part 9903 to ensure the Section 1824 recommendations are effectuated. It should be noted that implementation of the recommendations also requires changes to Federal Acquisition Regulation (FAR) Subpart 30.6 and FAR 52.230-6 regarding the process for administering changes in cost accounting practices and the calculation of increased costs in the aggregate for multiple changes administered within the same year.

## **2. CAS Applicability to Hybrid Contracts**

FEI CGB agrees that there is a need for guidance on CAS applicability to hybrid contracts. In Recommendation 30, Volume 2 of the June 2018 Report of the Advisory Panel on Streamlining and Codifying Acquisition Regulations (Section 809 Panel), the team clarified that a hybrid contract describes a situation in which portions of a given contract (i.e., contract line item number (CLIN)), have different pricing and payment terms. The report included examples such as situations where part of a contract contained commercial items that were priced using commercial pricing techniques without submission of certified cost or pricing data, but other parts of the same contract were based on negotiated pricing using certified cost or pricing data. This situation might occur when part of a contract for commercial items contains an item not considered a commercial item (i.e., major modification not performed commercially) and the price for that item was separately negotiated with submission of certified cost or pricing data. Another common example of a hybrid contract occurs when the contract has different contract type structures among the various CLINs, such as firm fixed price (FFP) pricing for some CLINs (e.g., unit prices for supplies and services) and cost reimbursement terms for other CLINs (e.g., travel, other direct charges).

Given the Administration's Executive Orders identifying a preference for commercial item solutions, inclusion of the recommended clarification in Title 41, Section 1502(b)(1) that a contract or subcontract, or a portion of a contract or subcontract, for (i) the acquisition of a commercial product or commercial service, (ii) where the price negotiated is based on a price set by law or regulations, and (iii) a FFP contract awarded on the basis of adequate price competition without submission of certified cost or pricing data are exempt from the requirements of CAS will eliminate confusion, speed up the procurement acquisition lead time and avoid potential disputes.

## **3. Elimination of Requirement to Issue an Advance Notice of Proposed Rulemaking**

FEI CGB generally agrees with the recommendation to eliminate the requirement in Title 41, Section 1502(c)(3)(A) that the CAS Board publish an advanced notice of proposed rulemaking in the Federal Register to solicit views and comments from the public before issuing a new or changed regulation. When CAS was initially promulgated over 50 years ago, the multi-step process was necessary due to the expansive and complex nature of the regulations and the inherent differences in companies accounting practices. However,

given that the focus of the current changes to CAS are to eliminate unnecessary standards and simplify the CAS administration process, the acquisition community could benefit from a more streamlined promulgation process. The CAS Board retains the ability to issue staff discussion papers seeking feedback from the public, which it has done multiple times as part of the CAS-GAAP conformance activities. It also may hold public meetings to solicit input. These information gathering techniques, coupled with the increased staffing proposed in the draft NDAA, should provide the CAS Board with the ability to move directly to a proposed notice of rulemaking with the requisite minimum 60-day period for public comment. If the comments received by the CAS Board indicated that a significant change is required to the proposed rule, the Board retains the ability to issue a supplemental notice of proposed rulemaking.

**Conclusion:**

FEI CGB appreciates the opportunity to provide feedback on these critical matters related to cost accounting standards and commends the efforts of the Committee to streamline the acquisition process and reduce the burden of regulations that add cost to federal government procurements.

If you wish to engage with the FEI CGB on this matter or have any questions, please contact Ms. Christina Coulter, Manager, Technical Committee Operations, at the FEI office in Morristown, NJ at (973) 765-1047 or email at [ccoulter@financialexecutives.org](mailto:ccoulter@financialexecutives.org). You may also contact me directly at (703) 244-7747 or [mcanavan@generaldynamics.com](mailto:mcanavan@generaldynamics.com).

Sincerely,

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