

COUNCIL OF DEFENSE AND SPACE INDUSTRY ASSOCIATIONS

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November 16, 2000

CODSIA Case No. 18-00 P

Ms. Laurie Duarte
General Services Administration
FAR Secretariat (MVR)
1800 F Street, NW
Room 4035
Washington, DC 20405

Re: FAR Case 2000-007, Financing Policies

Dear Ms. Duarte:

The undersigned members of the Council of Defense and Space Industry Associations (CODSIA) appreciate the opportunity to offer comments on the proposed rule on Financing Policies, which was published in the *Federal Register* on September 18, 2000, (65 Fed. Reg. 56453). Formed in 1964 by industry associations with common interests in defense and space fields, CODSIA is currently composed of eight associations representing over 4000 member firms across the nation. Participation in CODSIA projects is strictly voluntary. A decision by a member association to abstain from participating in a particular activity is not necessarily an indication of dissent.

While we recognize that the proposed rule was intended to correct an oversight in the final rule on Progress Payments and Related Financing Policies published on March 27, 2000, (FAR Case 1998-400), the undersigned believe that the proposed language will effectively reinstate the "paid cost rule" for some contractors or at least require contractors to maintain several systems and procedures to accommodate the timing differences for payments to vendors. As a result, we are opposed to the current language contained in the proposed changes and urge that the language be revised. Specifically, the establishment of a "standard time period of 30 days that contractors have to pay their vendors after contractors have billed the Government for incurred vendor costs" should be eliminated.

Some contractors have established terms and conditions for payment of subcontracts and vendor invoices that are in excess of the proposed standard time period of 30 days. As such, these contractors will be unable to meet a standard time period of 30 days in which vendors must be paid after the submission of a payment request to the Government. Systems and processes will need to be developed and maintained to

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accommodate the timing differences between payment of vendor invoices and contract billings. The result of the proposed language is to place many contractors in the same position they were before the paid cost rule was eliminated. It is also important to note that several of our member companies paid consideration to the Government for the benefits associated with the elimination of the paid cost rule, one of which was the simplification of billing systems.

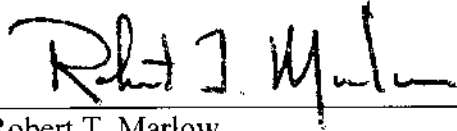
Instead of imposing an inflexible time period in which contractors must pay their vendors, we believe that the payment criteria should be based on the terms and conditions established between contractors and their vendors. This combined with the current requirement that a contractor not be delinquent in paying vendors in the ordinary course of business, minimizes any risks to the Government. Therefore, CODSIA members urge the deletion of the statement "*Not later than 30 days after the submission of the Contractor's payment request to the Government*" from each of the proposed FAR clauses 52.216-7, 52.216-26, 52.232-7, and 52.232-16. We believe deletion of this statement from the contract clauses is consistent with the intent of FAR Case 1998-400 in eliminating the paid cost rule. It will significantly minimize the burdens imposed on contractors and contracting officers by providing reasonable flexibility for the administration of contract payments. This would also eliminate audit issues, when minor exceptions occur (and they are bound to occur) as long as the payment system used by the contractor is working appropriately and vendors are ordinarily paid on a timely basis.

Our comments above relate to two of the three major changes in the proposed rule. We support the remaining major change, which would permit performance-based payments type of financing on fixed-price contracts prior to definitization.

Thank you for consideration of our comments. We believe the proposed rule with our changes is a reasonable and equitable solution and urge that these changes be finalized at the earliest possible date. If you have any questions or need more information, please contact the Project Officer for this CODSIA case, Ruth Franklin, at (703) 247-2598.

Sincerely,

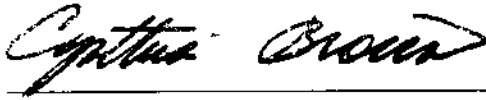
(SEE ATTACHED CODSIA SIGNATORIES)



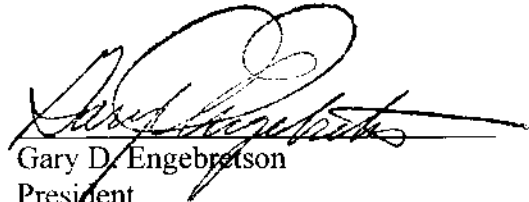
Robert T. Marlow
Vice President, Government Division
Aerospace Industries Association



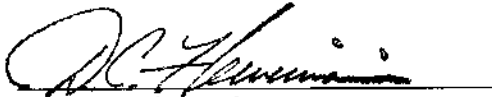
Lorraine M. Lavet
Chief Operating Officer
American Electronics Association



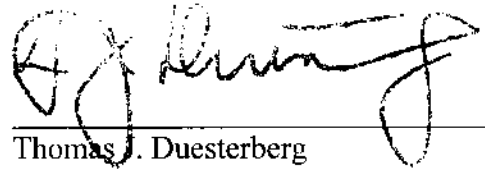
Cynthia Brown
President
American Shipbuilding Association



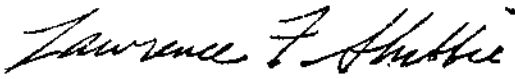
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