



OFFICE OF MANAGEMENT AND BUDGET

Office of Federal Procurement Policy

48 CFR Parts 9903 and 9904

RIN 0348-AB90

Conformance of Cost Accounting Standards to Generally Accepted Accounting Principles for Cost Accounting Standards 404, 408, 409, and 411

AGENCY: Cost Accounting Standards Board, Office of Management and Budget.

ACTION: Final rule.

SUMMARY: The Office of Management and Budget (OMB), Cost Accounting Standards Board (the Board), is publishing a final rule wholly rescinding Cost Accounting Standards (CAS) 408 and 411 and rescinding most provisions of CAS 404 and 409 to conform to Generally Accepted Accounting Principles (GAAP). The remaining content from CAS 404 and 409 is transferred to a different location within the Code of Federal Regulations. This final rule follows issuance of a Notice of Proposed Rulemaking (NPRM).

DATES: Effective date: [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

FOR FURTHER INFORMATION CONTACT: John L. McClung, Manager, Cost Accounting Standards Board (telephone: 202-881-9758; email: OMBCASB@omb.eop.gov)

SUPPLEMENTARY INFORMATION:

I. Background

On September 11, 2025, the Board published an NPRM (90 FR 43994) to solicit views on the Board's provisional conclusions regarding conformance of CAS 404, 408, 409, and 411 to GAAP. The NPRM noted that the vast majority of CAS 404 and CAS 409 could be rescinded and that CAS 408 and CAS 411 could be rescinded in their entirety.

The Board has determined that despite the difference in general focus between CAS and GAAP, there has been significant convergence over the years as GAAP has evolved to address cost measurement and assignment of costs to accounting periods. GAAP now contains codified content in these areas very similar to the requirements contained in CAS 404, 408, 409, and 411. In addition, the creation of the Financial Accounting Standards Board (FASB) and the Accounting Standards Codification (ASC) as the recognized financial accounting and reporting standards for GAAP fosters increased uniformity and consistency. The FASB is recognized today by the U.S. Securities and Exchange Commission as the designated accounting standard-setter for public companies. FASB standards are also recognized as authoritative by many other organizations, including State Boards of Accountancy and the American Institute of Certified Public Accountants (AICPA). The Board has concluded that these developments have created opportunities to amend or rescind overlapping CAS requirements – many of which have remained unchanged for over 50 years – where GAAP standards under ASC may be applied reasonably as a substitute for CAS to support contract cost and pricing.

The Board has concluded that the content of CAS 408 and 411, as well as most of the content of CAS 404 and 409, has become unnecessary because the Government interests addressed by that content are adequately protected through reliance on GAAP, existing requirements in other CAS standards, and the Federal Acquisition Regulation (FAR). Due to the minimal amount of content from CAS 404 and 409 identified for retention, the Board has concluded that moving the retained requirements to another standard rather than maintaining two standards with little content would best achieve the goal of streamlining CAS.

This final rule reflects input from the public, as well as research conducted by the Board. This action complies with applicable requirements of 41 U.S.C. 1502 and furthers the Board's performance of its duties under 41 U.S.C. 1501(c), which requires, among other things, that the Board: (1) ensure that the cost accounting standards used by Federal contractors rely, to the

maximum extent practicable, on commercial standards and accounting practices and systems; and (2) conform CAS, where practicable, to GAAP.

II. CAS 404 – Capitalization of Tangible Assets

A. Overview and Conclusion

CAS 404 was initially published February 27, 1973, at 38 FR 5318. It requires contractors, for the purposes of cost measurement, to establish and adhere to policies with respect to capitalization of the acquisition costs of tangible assets. CAS 404 also established criteria for required policies and procedures. CAS 404 was modified in 1996 when CAS 404-50(d) was added to address the treatment of gains or losses attributable to tangible capital assets subsequent to mergers or business combinations by Federal contractors, along with other relatively modest changes. With the exception of the 1996 additions, CAS 404 has remained static for over 50 years.

As noted in the NPRM, comparison of CAS 404 requirements with pertinent GAAP content revealed significant overlap and equivalent requirements with the noted exception of CAS 404-50(d)(1), which protects the Government from paying duplicative costs when Federal contractors merge or are acquired. Absent the requirements of CAS 404-50(d)(1), the Government would be at risk if an asset increased in value such that the combined depreciation recognized by both the acquired company and the acquiring company for government contracts exceeded the original cost of the asset. For all other requirements in CAS 404, a comparable requirement exists in GAAP that would promote uniformity and consistency in the measurement and assignment of the capitalized cost of tangible assets to cost accounting periods. In addition, the requirements contained in CAS 401 and 402 (CAS consistency standards) and CAS 403, 410, and 418 (CAS allocation standards) apply to all contractors subject to CAS 404 and protect the Government's interests.

The Board has therefore concluded that, in the absence of CAS 404, the Government's interests will be adequately protected by relying on other CAS standards and on disclosed GAAP

practices that are consistently followed and subject to notice of changes and cost recovery. All contractors, whether subject to full or modified CAS coverage, are subject to CAS 401 and CAS 402 and will continue to be required to consistently follow their disclosed or actual cost accounting practices. Contractors will also continue to be bound by the 9903.201-4 CAS contract clauses, which require disclosure and consistency in cost accounting practices, regardless of whether a specific standard exists. These contract clauses implement the disclosure requirements of 41 U.S.C. 1502(f)(1) and provide for the contractor, not the Government, to bear cost increases that result from changes to the contractor's cost accounting practices, as required by 41 U.S.C. 1502(f)(2). Furthermore, contractors currently subject to CAS 404 are those subject to full coverage and will continue to be subject to the CAS allocation standards. CAS allocation standards address areas required to adequately protect the Government's interest that are not covered by GAAP, such as allocation of indirect costs to contracts.

In summary, the Board has concluded that CAS 404, with the exception of CAS 404-50(d)(1), has become unnecessary to protect the Government's interests, which may be achieved through reliance on GAAP, the CAS consistency standards, and the CAS allocation standards. Therefore, the Board is rescinding CAS 404 while retaining the requirements from CAS 404-50(d)(1) by relocating them to a new paragraph 9904.405-40(g). The new paragraph will also include the retained requirements from CAS 409 discussed in Section IV below.

This action is consistent with the Board's statutory duties and guiding principles for conforming CAS to GAAP because it rescinds CAS content to minimize the burden on contractors, while protecting the interests of the Government. Furthermore, rescinding CAS 404 aligns with the guiding principle to rely on coverage in GAAP when it would promote uniformity and consistency in cost accounting without bias or prejudice to the Government or contractors.

As noted in the NPRM, the Board did not identify any instance where the rescission of CAS 404 would result in a change to a contractor's disclosed cost accounting practices for

government contracts. With the noted exception of CAS 404-50(d)(1), which is being retained, the current CAS 404 requirements are nearly identical to GAAP. The Board expects that contractors would continue to follow their existing practices as they would continue to be compliant with both CAS and GAAP. Because the rescission of most of CAS 404 should not require a change in contractor cost accounting practices, the Board does not expect that the promulgation of this rule would justify treating a change a contractor makes related to capitalization of the acquisition costs of tangible assets as a “required change” within the meaning of CAS 9903.201-6(a). As discussed further in the discussions of public comments, respondents did not identify any instances in which such treatment would be appropriate.

B. Summary of Public Comments CAS 404

The Board received four sets of public comments regarding the NPRM: two from industry associations and two from individuals. Comments generally agreed with the Board’s provisional conclusions in the NPRM. Specific comments and discussion are detailed below.

Comment: One commenter believes the Board has not gone far enough to conform to GAAP because it proposed to retain CAS 404-50(d)(1). In contrast, another commenter viewed the Board’s proposed rescission of any CAS standard as going too far. The commenter does not believe rescission of any standard is necessary for conformance to GAAP.

Response: In carrying out the duties required by 41 U.S.C. 1501(c), the Board has considered the factors in 41 U.S.C. 1502(c)(2) and concluded that rescinding CAS 404 and retaining only the content from 404-50(d)(1) will result in improvements in the pricing and administration of contracts subject to CAS. This final rule is consistent with the Board’s statutory duties and guiding principles for conforming CAS to GAAP because it rescinds CAS content to minimize the burden on contractors while protecting the interests of the Government.

Comment: One commenter suggested the Board duplicate language from the retained requirements of CAS 404-50(d)(1) in CAS 405 to avoid unintentionally penalizing contractors by disallowing part of their legitimate indirect costs. The commenter expressed concern that, if

the content of CAS 404 were rescinded or relocated as proposed, a contractor might be required to include increased depreciation costs resulting from a step-up in the value of a tangible asset due to a merger or acquisition in the base for allocating indirect costs, even though CAS 404-50(d)(1) calls for a no step-up, no step-down approach. That would decrease the percentage of otherwise allowable indirect costs that could be recovered through the contract.

Response: The Board has reconsidered the proposed location of CAS 406 for the retained content, and the final rule locates the retained content in CAS 405. The Board has concluded that CAS 404 more closely aligns with CAS 405 and will also avoid confusion and the unintended consequence and concern raised by this comment.

Comment: One commenter believes the Board should exempt all accounting changes related to “CAS-GAAP harmonization” from the cost and price adjustment requirements of CAS part 9903.

Response: The Board has previously communicated to the public that it will evaluate each CAS-to-GAAP conformance action individually. In the case of CAS 404, no exemption from the adjustment requirements is warranted. As the Board has already explained, there is no reason to assume that a change in contractor accounting practices following the effective date of this final rule will be a necessary result of the changes to CAS 404.

III. CAS 408 – Accounting for Costs of Compensated Personal Absence

A. Overview and Conclusion

CAS 408 was initially published September 19, 1974, at 39 FR 33681. The stated purpose of the standard was to improve, and provide uniformity in, the measurement of costs of vacation, sick leave, holiday, and other compensated personal absence for a cost accounting period, and thereby increase the probability that the measured costs are allocated to the proper cost objectives. CAS 408 has remained static for over 50 years.

As noted in the NPRM, comparison of CAS 408 with pertinent GAAP content revealed significant overlap and nearly completely equivalent requirements. For each requirement in CAS

408, a comparable requirement exists in GAAP that promotes uniformity and consistency in the measurement and assignment of costs of compensated personal absences to cost accounting periods. The Board identified only one significant difference between CAS and GAAP in this area. GAAP requires accruing both accumulated and vested rights, but CAS only requires accruing vested rights. The Board concluded that this difference is immaterial and that using GAAP still provides sufficient uniformity and consistency. Furthermore, as discussed in Section II above, the CAS consistency and allocation standards, in conjunction with 9903.201-4 CAS contract clauses, adequately protect the Government's interests by protecting the Government from payment of increased costs as a result of changes to a contractor's accounting practices.

In summary, the Board has concluded that CAS 408 has become unnecessary to protect the Government's interests, which may be achieved through reliance on GAAP, and the CAS consistency and allocation standards. Therefore, the Board is rescinding CAS 408.

This action is consistent with the Board's statutory duties and guiding principles for conforming CAS to GAAP because it rescinds CAS content to minimize the burden on contractors while protecting the interests of the Government. Furthermore, rescinding CAS 408 aligns with the guiding principle to rely on coverage in GAAP when doing so would promote uniformity and consistency in cost accounting without bias or prejudice to either the Government or contractors.

The Board has concluded that rescission of CAS 408 could in some cases result in changes in accounting practices, as GAAP allows the assignment of certain costs to earlier cost accounting periods than CAS 408 currently permits. Because GAAP requires estimates and adjustments for forfeitures, the Board has concluded these differences would only result in immaterial timing differences. As such, to streamline administration of the transition and eliminate unnecessary burden, the Board is exempting these changes from the required cost impact process by adding subsection (b) to section 9903.201-9.

B. Summary of Public Comments for CAS 408

The comments discussed in Section II did not identify any additional issues specific to CAS 408 beyond those already addressed.

IV. CAS 409 – Depreciation of Tangible Capital Assets

A. Overview and Conclusion

CAS 409 was initially published January 29, 1975, at 40 FR 4259. The purpose of CAS 409 is to provide criteria and guidance for assigning costs of tangible capital assets to cost accounting periods and for allocating such costs in cost objectives within such periods in an objective and consistent manner. CAS 409 is based on the concept that depreciation costs identified with cost accounting periods and benefiting cost objectives within periods should be a reasonable measure of the expiration of service potential of the tangible assets subject to depreciation. The original preamble to the 1975 rulemaking also noted that depreciation cost was a significant issue at the time, and explained that many contractors primarily relied on the Internal Revenue Code (IRC) to measure depreciation costs. The IRC contained accelerated depreciation methods for tax purposes, and the Board viewed this as inequitable and improper cost accounting because the methods did not distribute the depreciation expense over the useful life of the asset. GAAP now prohibits using the accelerated depreciation methods in the IRC for financial reporting purposes if the amounts do not fall within a reasonable range of the asset's useful life. Thus, one of the principal concerns for the promulgation of CAS 409 no longer exists. In addition, GAAP has added significant content since the initial promulgation of CAS 409, while CAS for the most part has not changed over the last 50 years.

As noted in the NPRM, the comparison of CAS 409 with pertinent GAAP content revealed significant overlap and nearly completely equivalent requirements with the noted exceptions of CAS 409-50(e)(5), CAS 409-50(j)(1), and CAS 409-50(j)(4). For all other requirements in CAS 409, a comparable requirement exists in GAAP to enhance uniformity and consistency in the measurement and assignment of depreciation costs to cost accounting periods. The Board has concluded that reliance on GAAP would promote uniformity and consistency in

cost accounting. Furthermore, as discussed in Section II above, the CAS consistency and allocation standards in conjunction with 9903.201-4 CAS contract clauses adequately protect the Government's interests by protecting the Government from payment of increased costs as a result of changes to a contractor's accounting practices.

In summary, the Board has concluded that the provisions of CAS 409, with the exception of CAS 409-50(e)(5), CAS 409-50(j)(1), and CAS 409-50(j)(4), have become unnecessary to protect the Government's interests. CAS 409-50(e)(5) provides valuable flexibility by allowing the contracting parties to agree on the estimated service life of individual tangible capital assets where the unique purpose for which the equipment was acquired or other special circumstances warrant a shorter estimated service life than the one that would result from the application of other approaches. CAS 409-50(j)(1) ensures that gains and losses resulting from the disposition of tangible capital assets are properly measured and assigned consistent with the costs of the associated depreciation charged. CAS 409-50(j)(4) protects the Government against shifting of gains and losses associated with the disposition of tangible capital assets transferred in other than an arms-length transaction that are subsequently disposed of within 12 months. Therefore, the Board is rescinding most provisions of CAS 409, but retaining the requirements of CAS 409-50(e)(5), CAS 409-50(j)(1), and CAS 409-50(j)(4) and relocating them to a new paragraph, 9904.405-40(g). The new paragraph 9904.405-40(g) will also include the retained requirement from CAS 404 discussed in Section II above.

This action is consistent with the Board's statutory duties and guiding principles for conforming CAS to GAAP because it rescinds CAS content to minimize the burden on contractors while protecting the interests of the Government. Furthermore, rescinding most provisions of CAS 409 aligns with the guiding principle to rely on coverage in GAAP when doing so would promote uniformity and consistency in cost accounting without bias or prejudice to either the Government or contractors. As noted in the NPRM, the Board did not identify any instance where the rescission of CAS 409 would require a change to a contractor's disclosed cost

accounting practices for government contracts. With the noted exceptions of CAS 409-50(e)(5), CAS 409-50(j)(1), and CAS 409-50(j)(4), which are being retained, the current CAS requirements are nearly identical to GAAP. The Board expects that contractors would continue to follow their existing practices as they are compliant with both CAS and GAAP. As such, the Board does not expect that the promulgation of this final rule would justify treating a change a contractor makes related to depreciation costs as a “required change” within the meaning of 9903.201-6(b)(2). Public comments did not identify any instances in which such treatment would be appropriate.

B. Summary of Public Comments for CAS 409

The comments discussed in Section II did not identify any additional issues specific to CAS 409 beyond those already addressed. The Board previously communicated to the public that it will evaluate each CAS to GAAP conformance action individually. In the case of CAS 409, no exemption from the price and cost adjustment requirements of CAS part 9903 is warranted. As the Board has already explained, there is no reason to assume that a change in contractor accounting practices following the effective date of this final rule will be a necessary result of the changes to CAS 409.

V. CAS 411 – Accounting for Acquisition Costs of Materials

A. Overview and Conclusion

CAS 411 was initially published on May 5, 1975, at 40 FR 19425. The purpose of CAS 411 is to provide criteria for the accounting for acquisition costs of material and address the use of inventory costing methods. The majority of the CAS 411 standard has remained static since its initial promulgation. The standard was corrected in 1992 (57 FR 34167) to make clear that it does not cover accounting for the acquisition costs of tangible capital assets or accountability for government-furnished materials.

As noted in the NPRM, GAAP has been revised significantly with additional content and changes in requirements since the original promulgation of CAS 411, resulting in a significant

overlap and nearly completely equivalent requirements between GAAP and CAS. For each requirement in CAS 411, a comparable requirement exists in GAAP, other CAS standards, or FAR 31.205-26, Material Costs, that would protect the Government's interests. The Board has concluded that rescission of CAS 411 would promote uniformity and consistency. Furthermore, as discussed in Section II above, CAS 401 and the 9903.201-4 CAS contract clauses adequately protect the Government's interests by protecting the Government from payment of increased costs as a result of changes to contractor's accounting practices.

This action is consistent with the Board's statutory duties and guiding principles for conforming CAS to GAAP because it rescinds CAS content to minimize the burden on contractors while protecting the interests of the Government. Furthermore, rescinding CAS 411 aligns with the guiding principle to rely on coverage in GAAP when doing so would promote uniformity and consistency in cost accounting without bias or prejudice to either the Government or contractors. As noted in the NPRM, the Board did not identify any instance where the rescission of CAS 411 would result in a change to a contractor's disclosed cost accounting practices for government contracts. The current CAS requirements are nearly identical to GAAP. The Board expects that contractors would continue to follow their existing practices as they are compliant with both CAS and GAAP. As such, the Board does not expect that the rescission of CAS 411 would justify treating an accounting change a contractor subsequently makes as a "required change" within the meaning of 9903.201-6(b)(2). Public comments did not identify any instances in which such treatment would be appropriate.

B. Summary of Public Comments for CAS 411

The comments discussed in Section II did not identify any additional issues specific to CAS 411 beyond those already addressed. In addition, as noted, comments did not identify any instance where the rescission of CAS 411 would result in a change to a contractor's disclosed cost accounting practices for government contracts. The Board previously communicated to the public that it will evaluate each CAS to GAAP conformance action individually. In the case of

CAS 411, no exemption from the price and cost adjustment requirements of CAS part 9903 is warranted. As the Board has already explained, there is no reason to assume that a change in contractor accounting practices following the effective date of this final rule will be a necessary result of the rescission of CAS 411.

VI. Expected Impact of the Rule

This final rule is deregulatory in furtherance of 41 U.S.C. 1501(c), which requires the Board to ensure that the Cost Accounting Standards used by contractors rely, to the maximum extent practicable, on commercial standards and accounting practices and systems. In addition, 41 U.S.C. 1501(c) requires the Board to conform CAS requirements, where practicable, to GAAP. This rule rescinds four of the current 19 CAS in whole or in part, retaining and relocating only the minimum content the Board has identified as needed to protect the Government's interest. This results in the elimination of 68 of the 72 combined individual requirements contained in these four standards, and the removal of over 10,000 words of unnecessary regulatory text. Reliance on a contractor's disclosed GAAP practices for CAS purposes significantly reduces the regulatory footprint associated with CAS and places reliance on commercial accounting practices under GAAP consistent with 41 U.S.C. 1501(c). These changes will reduce burden for contractors, external auditors, government auditors, and oversight functions by reducing duplicative compliance requirements.

These changes individually and in conjunction with the Board's ongoing broader CAS-to-GAAP conformance efforts and modernization of the CAS programmatic requirements are expected to simplify CAS administration and reduce barriers to entry for non-traditional contractors, including new mid-size entities who no longer qualify as small businesses. These actions should increase competition in federal contracting, as envisioned by the Senate Armed Services Committee in promoting CAS-to-GAAP conformance (S. Rept. 114-25, Section 811): "The committee is concerned that the current cost accounting standards favor incumbent defense contractors and limit competition by serving as a barrier to participation by non-traditional, small

business, and commercial contractors. To level the competitive playing field to access new sources of innovation it is in the government's interest to adopt more commercial ways of contracting, accounting, and oversight.”

VII. Regulatory Flexibility Act

CAS Board rules do not impact small entities within the meaning of the Regulatory Flexibility Act, 5 U.S.C. 601-612. Contracts and subcontracts with small business concerns are exempted from all CAS requirements.

VIII. Executive Orders 12866, 13563, and 14192

Executive Orders (E.O.s) 12866 and 13563 direct agencies to assess all costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits. E.O. 13563 emphasizes the importance of quantifying both costs and benefits, of reducing costs, of harmonizing rules, and of promoting flexibility. This is not significant regulatory action under E.O. 12866, Regulatory Planning and Review, dated September 30, 1993. This rule is a deregulatory action under E.O. 14192 based on the discussion in Section VI above.

IX. Paperwork Reduction Act

The Paperwork Reduction Act, Public Law 96–511, does not apply to this final rule because this rule imposes no paperwork burden on offerors, affected contractors and subcontractors, or members of the public that would require the approval of OMB under 44 U.S.C. 3501, et seq.

List of Subjects in 48 CFR 9903 and 9904

Government procurement, Cost accounting standards.

Kevin R. Rhodes,

Administrator,

Office of Federal Procurement Policy, and Chair, Cost Accounting Standards Board.

For the reasons set forth in the preamble, the Office of Federal Procurement Policy is amending chapter 99 of title 48 of the Code of Federal Regulations as set forth below:

PART 9903—CONTRACT COVERAGE

1. The authority citation for part 9903 continues to read as follows:

Authority: Public Law 111-350, 124 Stat. 3677, 41 U.S.C. 1502.

2. In § 9903.201-9, add paragraph (b) to read as follows:

§ 9903.201-9 Treatment of certain compliant cost accounting practice changes related to conformance of CAS to GAAP.

* * * * *

(b) Conformance of CAS 408 to GAAP. The contract price and cost adjustment requirements of part 9903 are not applicable to changes directly associated with the conformance of CAS 408 to GAAP. Changes must be disclosed and made during the contractor's fiscal year directly following the effective date of the final rule rescinding CAS 408.

PART 9904 – COST ACCOUNTING STANDARDS

3. The authority citation for part 9904 continues to read as follows:

Authority: Pub. L. 100-679, 102 Stat. 4056, 41 U.S.C. 422.

Subpart 9904.404 — [Removed and Reserved]

4. Remove and reserve subpart 9904.404 consisting of §§ 9904.404-20 through 9904.404-63.

5. In § 9904.405-40, add paragraph (g) to read as follows:

§ 9904.405-40 Fundamental requirement.

* * * * *

(g) Recission of CAS 404 and 409 as a result of CAS-to-GAAP conformance by the Board resulted in the following retained content related to asset accounting and depreciation:

(1) When gains and losses are recognized on disposition of tangible capital assets, the gains or losses shall be considered as adjustments of depreciation costs previously recognized

and shall be assigned to the cost accounting period in which disposition occurs. The gain to be recognized for contract costing purposes shall be limited to the difference between the original acquisition cost of the asset and its undepreciated balance.

(2) Gains and losses on disposition of tangible capital assets transferred in other than arm's-length transaction and subsequently disposed of within 12 months from the date of transfer shall be assigned to the transferor.

(3) The capitalized values of tangible capital assets acquired in a business combination shall be assigned to these assets as follows: All the tangible capital assets of the acquired company that during the most recent cost accounting period prior to a business combination generated either depreciation expense or cost of money charges that were allocated to Federal government contracts or subcontracts negotiated on the basis of cost, shall be capitalized by the buyer at the net book value(s) of the asset(s) as reported by the seller at the time of the transaction.

(4) The contracting parties may agree on the estimated service life of individual tangible capital assets where the unique purpose for which the equipment was acquired or other special circumstances warrant a shorter estimated service life and where the shorter life can be reasonably predicted.

Subpart 9904.408 [Removed and Reserved]

6. Remove and reserve subpart 9904.408 consisting of §§ 9904.408-20 through 9904.408-63.

Subpart 9904.409 [Removed and Reserved]

7. Remove and reserve subpart 9904.409 consisting of §§ 9904.409-20 through 9904.409-63.

Subpart 9904.411 [Removed and Reserved]

8. Remove and reserve subpart 9904.411 consisting of §§ 9904.411-20 through 9904.411-63

