

addressed to Richard C. Loeb, Executive Secretary, Cost Accounting Standards Board, Office of Federal Procurement Policy, 725 17th Street, NW., Room 9001, Washington, DC 20503. ATTN: CASB Interpretation 95-01.

**FOR FURTHER INFORMATION CONTACT:** Richard C. Loeb, Executive Secretary, Cost Accounting Standards Board (telephone: 202-395-3254).

**SUPPLEMENTARY INFORMATION:**

**A. Background**

Section 818 of the National Defense Authorization Act for Fiscal Year 1995, Pub. L. 103-337, restricts the Department of Defense from reimbursing contractor restructuring costs associated with a business combination unless certain "net savings" provisions are met. Questions have arisen as to the methods to be used in measuring, assigning and allocating such restructuring costs. This interim interpretation is designed to address these questions. The Board would appreciate receiving comments concerning this interpretation.

**B. Authority to Issue an Interpretation**

Authority for issuance of this interpretation is provided by 41 U.S.C. 422(f)(1) and 48 CFR 9901.302(b).

**Richard C. Loeb,**

*Executive Secretary, Cost Accounting Standards Board.*

**Cost Accounting Standards Board  
Interim Interpretation 95-01,  
"Allocation of Contractor Restructuring  
Costs Under Defense Contracts"**

(a) Questions have arisen as to the appropriate methodologies to be used for the allocation and period cost assignment of contract costs categorized or classified as "restructuring costs" under certain defense contracts. This Interpretation applies to the provisions of several Cost Accounting Standards, including, but not limited to CAS 9904.403, 9904.404, 9904.406, 9904.409 and 9904.418, as they relate to "restructuring costs" associated with CAS-covered contracts.

(b) "Restructuring costs" are incurred after an entity decides to make a significant nonrecurring change in its business operations or structure in order to reduce overall cost levels in future periods through work force reductions, the elimination of selected activities, and/or the combination of ongoing operations, including plant relocations. Restructuring activities do not include ongoing routine changes an entity makes in its business operations or organizational structure. Restructuring costs are comprised both of direct and

indirect costs associated with contractor restructuring activities taken after a business combination is effected or after an internal corporate restructuring decision is made. Typical categories of costs that have been included as restructuring charges include severance pay, early retirement incentive, retraining, employee relocation, lease cancellation, asset disposition and write-offs, and relocation and rearrangement of plant and equipment. Restructuring costs do not include the cost of such activities when they do not relate either to business combinations or significant nonrecurring internal corporate restructuring decisions. Generally, activities giving rise to restructuring charges should normally be completed within one year.

(c) The costs of betterments or improvements of capital assets that result from restructuring activities shall be capitalized and depreciated in accordance with the provisions of CAS 9904.404 and 9904.409.

(d) When a procuring agency imposes a net savings requirement for the payment of restructuring costs, the contractor shall submit data specifying (1) restructuring costs by period, (2) restructuring savings by period (if applicable), and (3) the methods by which such costs shall be allocated.

(e) Under normal circumstances, most categories of costs that qualify as restructuring costs are recognized as current period cost in the period in which the cost is incurred. However, for contractor restructuring costs defined pursuant to this Interpretation, such costs may be deferred, and subsequently amortized, over a period during which the benefits are expected to accrue. A proposal to expense restructuring costs in the current period is acceptable when the Contracting Officer agrees that such treatment will result in a more equitable assignment of costs in the circumstances.

(f) If a contractor incurs restructuring costs but does not have an established or disclosed cost accounting practice covering such costs, the deferral of such restructuring costs may be treated as the initial adoption of a cost accounting practice (see 9903.302-2(a)). If a contractor incurs restructuring costs but has an existing established or disclosed cost accounting practice that does not provide for deferring such costs, any resulting change in cost accounting practice to defer such costs may be presumed to be desirable and not detrimental to the interests of the Government (see 9903.201-6). Changes in cost accounting practices for restructuring costs shall be subject to disclosure statement revision

requirements (see CAS 9903.202-3), if applicable.

(g) Measurement of cost impact on existing CAS-covered contracts, shall be the difference between an estimate to complete before giving effect to the restructuring, and, an estimate to complete considering restructuring. The estimates to complete shall be based on the contractor's compliant cost accounting practices for the affected cost accounting periods, from the applicability date of the restructuring plan through the end of the period designated as the benefiting period.

(h) The amortization period for deferred restructuring costs shall not exceed five years. Straight line amortization should normally be used, unless another method results in a more appropriate matching of cost to expected benefits.

(i) Restructuring costs that are deferred shall not be included in the allocation based for cost of money purposes (see CAS 9904.414). Deferred charges are not tangible or intangible capital assets and therefore are excluded from the base for computation of facilities capital cost of money.

(j) Restructuring costs incurred at a home office level shall be treated in accordance with the provisions of CAS 9904.403. Restructuring costs incurred at the segment level that benefit more than one segment should be allocated to the home office and treated as home office expense pursuant to CAS 9904.403. Restructuring costs incurred at the segment level that benefit only that segment shall be treated in accordance with the provisions of CAS 9904.418. Restructuring costs that are not considered to meet the homogeneity requirements of CAS 9904.418 shall be grouped in indirect cost pools that are distinct from the contractor's current indirect cost pools.

(k) This Interpretation is applicable to contractor "restructuring costs" paid or approved on or after August 15, 1994.

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**ENVIRONMENTAL PROTECTION  
AGENCY**

**48 CFR Part 1517**

[FRL-5168-6]

**Acquisition Regulation**

**AGENCY:** Environmental Protection Agency (EPA).

**ACTION:** Final rule.

**SUMMARY:** This document amends the EPA Acquisition Regulation (EPAAR)

on the use of options. This rule eliminates a provision on the use of options which is more restrictive than coverage in the Federal Acquisition Regulation (FAR).

**EFFECTIVE DATE:** March 8, 1995.

**FOR FURTHER INFORMATION CONTACT:** Paul Schaffer at (202) 260-9032, Environmental Protection Agency, 401 M Street, S.W., Washington, D.C. 20460 (Mail Code 3802F).

**SUPPLEMENTARY INFORMATION:**

**A. Background**

Under this rule, EPA Contracting Officers (COs) will no longer need the approval of the Chief of the Contracting Office (CCO) (which includes the Office of Acquisition Management Division Directors at Headquarters, Research Triangle Park, NC, and Cincinnati, OH) when the use of options for increased quantities of supplies or services exceed 50% of the base quantity specified in the contract for a particular period. FAR coverage, which is less restrictive, is adequate.

Under this rule, EPA COs will no longer need the approval of the CCO when the use of options, combined with

the base contract period, results in a total contract period of performance which exceeds thirty-six (36) months. CCO approval will be required only for total contract periods in excess of sixty (60) months, unless otherwise prohibited by statute.

**B. Executive Order 12866**

This rule is not a significant regulatory action as defined in Executive Order 12866. Therefore no review is required at the Office of Information and Regulatory Affairs within OMB.

**C. Paperwork Reduction Act**

The Paperwork Reduction Act does not apply because this rule does not propose any information collection requirements which would require the approval of OMB under 44 U.S.C. 3501, et seq.

**D. Regulatory Flexibility Act**

The EPA certifies this rule will have no significant impact on small entities, since the rule eliminates a procedure internal to the Government. Therefore, no regulatory flexibility analysis has been prepared.

**List of Subjects in 48 CFR Part 1517**

Special contracting methods.

For the reasons set out in the preamble, Chapter 15 of Title 48, Code of Federal Regulations is amended as set forth below:

1. The authority citation for Part 1517 continues to read as follows:

**Authority:** Sec 205(c), 63 Stat. 390, as amended, 40 U.S.C. 486(c).

**§ 1517.202 [Removed]**

2. Subpart 1517.2 is amended by removing section 1517.202.

3. Subpart 1517.2 is amended by adding section 1517.204 to read as follows:

**1517.204 Contracts.**

The CCO may approve a contract with a base contract period and option periods which total in excess of five (5) years, unless otherwise prohibited by statute.

Dated: February 27, 1995.

**Betty L. Bailey,**

*Director, Office of Acquisition Management.*

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