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.

ig) 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)