



DEFENSE SECURITY COOPERATION AGENCY

WASHINGTON, DC 20301-2800

APR 12 2007

In reply refer to:
I-07/004862-STR

MEMORANDUM FOR SEE DISTRIBUTION

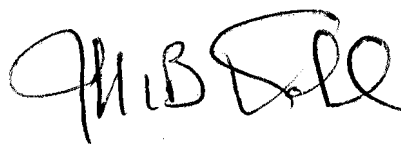
SUBJECT: Net Proceeds from Third Party Transfers, DSCA Policy 07-15
[SAMM E-Change 77]

Effective immediately, Chapter 8 of the Security Assistance Management Manual (SAMM) is updated to include a revised definition for net proceeds. The definition of net proceeds previously found in Chapter 11 of the SAMM has been deleted in its entirety.

Section 505(f) of the Foreign Assistance Act of 1961, as amended (FAA), requires that recipients return net proceeds from the sale or disposal of defense articles granted either as EDA or under MAP. "Net proceeds" was defined simply as what remained after subtracting reasonable administrative costs of sale or disposal from the proceeds. As more sophisticated equipment has been granted in recent years, recipients are more often required to contribute greater expenses for refurbishment and necessary upgrades. The current definition does not make clear how net proceeds can be calculated in these circumstances to result in a fair share return to the recipient as well as to the USG. The proposed revision takes into consideration both the transfer value of the equipment provided by the USG and any capital investment by the recipient in arriving at an equitable distribution of the net proceeds from sale or disposal or EDA or MAP granted defense articles.

The attached change will be included in the automated version of the SAMM found on the DSCA Web Page as SAMM E-Change 77. If you have any questions concerning this policy, please contact Ms. Di Bounds, State/PM-RSAT, at (202) 647-2882 or boundsad@state.gov or Mike Slack, DSCA/STR/POL, at (703) 601-3842 or e-mail: michael.slack@dscamil.

Attachment:
As stated


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Net Proceeds from Third Party Transfers Policy - SAMM E-Change XX

1. In Chapter 8, the second row of Table C8.T5. is revised as shown:

Table C8.T5. Requirements for Third Party Transfer Requests – Government-to-Government

Requirements for Third Party Transfer Requests – Government-to-Government	
2	<p>The original acquisition source of the defense articles/services proposed for transfer (e.g., FMS, grant, etc.). <i>In accordance with FAA, section 505(f) (reference (b)) and prerequisite bilateral agreements, if the defense articles were furnished to a country on a grant basis (e.g., MAP-grants, grant EDA, drawdown), the any-net proceeds gained from transfer or disposal of the sale of the defense articles received by the grantee must be returned to the USG. In accordance with prerequisite bilateral agreements under FAA, section 505(f) (reference (b)). The following factors relating to the defense articles should be considered in determining the net proceeds: the value of the defense articles when furnished by the U.S. Government as a percentage of the aggregate of the value of the defense articles when furnished by the U.S. Government added to the value of any capital investment incurred by the grantee in repairing, rehabilitating, or modifying the article (other than routine maintenance and repair expenses); depreciation of that value; and reasonable administrative costs of the sale or disposal. The party requesting the third party transfer of such defense articles must show it has employed a reasonable methodology in calculating the net proceeds [e.g., $Net\ Proceeds = (Gross\ Sale\ Proceeds - Administrative\ Costs\ of\ Sale) \times (Value\ at\ Transfer / (Value\ at\ Transfer + Value\ of\ Capital\ Investment))$]. Net proceeds are what remain after subtracting reasonable administrative costs associated with sale or disposal DoS may waive return of net proceeds in cases involving grant equipment delivered prior to 1985. There is no waiver authority for articles delivered after 1985. Requests for waiver consideration are included in written transfer requests and must include an estimate of the net proceeds expected, justification/rationale for the request to retain net proceeds, and how the funds will be used.</i></p>

2. In Chapter 11, the 12th row of Table C11.T23. is revised as shown in italics:

Table C11.T23. MAP Accountability and Disposal Processes

Step	Action
12 Net Proceeds Returned to USG	<p><i>Net proceeds resulting from the item disposal must be returned to the USG unless a waiver has been granted by the DoS. See Chapter 8, Table C8.T5. for an explanation of the calculation of net proceeds.</i></p>