DEPUTY SECRETARY OF WAR
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

SEP 14 2026

MEMORANDUM FOR SENIOR PENTAGON LEADERSHIP
COMMANDERS OF THE COMBATANT COMMANDS
DEFENSE AGENCY AND DOW FIELD ACTIVITY DIRECTORS

SUBJECT: Fostering One Strong Industrial Base

The Department of War (DoW) must buy faster, simpler, and more competitively to get speed and volume. Backed by strong Congressional support in the FY26 NDAA to strengthen the Defense Industrial Base, the Department continues to break down barriers to entry and expand our industrial base. To build on this momentum and keep all of industry engaged, we must completely transform and modernize our contract cost and pricing ruleset.

The DoW will move from government-unique Cost Accounting Standards (CAS) to the accounting every American company already uses — Generally Accepted Accounting Principles (GAAP) — and push those benefits to every tier of the supply chain. When necessary to foster transparency and fairness, we will ask suppliers for the cost and pricing information they already keep. No new accounting systems or special data formats will be required. Any data industry provides will be used only for authorized Government purposes and never made available to another company for its own use.

Executive Order 14402 makes fixed-price contracts the default and reserves cost-based contracts for basic research and for the development of major systems. Where there is a market — competition, comparable sales, reliable price history — the market sets the price. Where there is no market — major sole-source development and procurement — we will rely on cost data drawn from a company's existing records rather than invasive oversight.

My August 18, 2026 memorandum, "Supplier Cost and Pricing Transparency," reinforces the option for contracting officers to see through the prime contractor to the suppliers when needed. This is essential to ensure companies at every tier are treated fairly. For the system to work, contractual benefits offered by the government to a prime must be flowed down through the supply chain and, conversely, sole-source suppliers cannot be allowed to leverage primes and slow down deliveries. The Department has a wide range of tools to mitigate risk and strengthen the supply chain. Office of Strategic Capital loans, Industrial Base Analysis and Sustainment funds, and talented DoW business operators should be accessible to every company supporting the DoW.

Asking for information does not, by itself, create a cost-reimbursement contract or CAS coverage, and it does not alter the thresholds or exceptions for certified cost or pricing data. Transparency and partnership run both ways: the Department opens its buying to market forces, and when asked, industry shares the cost and pricing information it already keeps.

We will accept GAAP-based accounting across all contracts to the maximum extent the law permits, and we will continue pursuing CAS to GAAP through the Cost Accounting

Standards Board (CASB). The DoW will submit proposals to the CASB within 60 days to make CAS exemption the default, confine remaining CAS coverage to sole-source, cost-based development or incentive-fee procurement, and ensure CAS applies only to relevant contracts and not companies as a whole. Recently, the CASB made significant progress in reducing the CAS regulations, and we look forward to partnering with them to continue accelerating change this year. Until the Board acts, no solicitation from the DoW that could bring a business unit not previously subject to CAS under full CAS coverage may be issued unless the Under Secretary of War for Acquisition and Sustainment has approved the acquisition strategy in writing.

The attached appendix directs these actions; implementing guidance may not add requirements beyond this memorandum and applicable law. This memorandum and appendix govern how the Department requests and uses contractor cost and pricing information; prior Department guidance on this subject will be applied consistently with it.

One of our Nation's greatest strengths is its private sector. National security must harness it — unleashing industry, protecting taxpayers through proven methods like competition, and restricting the use of our most burdensome oversight tools to only when absolutely necessary.

Attachment:
As stated

APPENDIX: IMPLEMENTATION ACTIONS

The Vice Chairman of the Joint Chiefs of Staff will:

Review requirements reform in practice. Within 30 days, co-chair with the Deputy Secretary a review of the Services' and Military Departments' implementation of requirements reform. The requirements review will use tangible program examples to show where the new approach has broadened acceptable acquisition solution space, expanded competition, or changed what acquisition could buy, and will identify how the Services and Military Departments can accelerate adoption, or further improve requirements processes.

The Under Secretary of War for Acquisition and Sustainment (USW(A&S)) will:

Accelerate acquisition transformation. Having issued the commercial-first implementation policy, within seven days issue the Department-wide modular open systems approach (MOSA) policy and the Portfolio Acquisition Executive Operating Framework, including its addendum of recommended authorities for delegation.

CAS containment within existing authority.

- Use available CAS relief. Apply immediately the increased CAS thresholds enacted in section 1806 of the National Defense Authorization Act for Fiscal Year 2026, as implemented by Department class deviation and by the Cost Accounting Standards Board's 2026 threshold rule as it takes effect, together with the statutory relief for nontraditional defense contractors. Within 60 days, issue, with the support of the Under Secretary of War (Comptroller) (USW(C)), a CAS waiver policy and standing justification templates for the individualized determinations the waiver authority in law requires, for new entrants, predominantly commercial segments, and businesses outgrowing small-business classifications.

- Prevent shadow CAS. Within 30 days, prohibit Components from imposing on exempt awards and other transactions the equivalent of CAS coverage, disclosure, business-system review, or practice-change governance under another name. Cost data from exempt performers will be requested as already maintained in their books and records.

- Limit new CAS coverage pending Board action. Before issuing a solicitation expected to bring a performing business unit newly under full CAS coverage, obtain the written approval of the USW(A&S) for the acquisition strategy. Requests must assess competition, commercial acquisition, competed fixed-price structures, exemptions, and existing waiver authority, and explain why none can meet the requirement without new full CAS coverage; the Under Secretary will decide within 15 business days or elevate the request to the Deputy Secretary. This approval concerns the acquisition strategy only; it does not determine CAS applicability, grant any exemption or waiver, or authorize omission of a required provision or clause.

Make rapid commerciality determinations. Within 45 days, direct that commercial product and service determinations be completed within 15 business days of a complete request; that a prior Department determination stand for subsequent procurements unless reversed in writing by a head of contracting activity; and that, on commercial acquisitions, cost data may be requested if the contracting officer determines price, market, and sales data are insufficient to determine a fair and reasonable price.

Extend use of other transactions. Through the Other Transactions Guide revision under way, within 45 days issue interim other transaction (OT) policy, followed by the full Guide reissue within 120 days, that: defines "participating to a significant extent" as any unique contribution material to the prototype project, without percentage-of-workshare or dollar thresholds as eligibility tests; prefers fixed-amount, milestone-based payment structures; requires the agreements officer, before award, to document the applicable statutory eligibility basis, relying where lawful on offeror self-certification against standard representations and conducting additional verification by exception, with a 10-business-day clock on any determination; and directs follow-on production planning in every prototype OT. Within 30 days, issue a consortium policy with project-level eligibility, direct-award preference and fee transparency. Within 60 days, Component Senior Procurement Executives will publish pre-approved findings templates and a 10-business-day signature standard for exceptional-circumstances determinations.

Modernize profit policy. Within 90 days, initiate the DFARS rulemaking, eliciting industry feedback, to revise the Department's profit policy so that negotiated margins reflect value delivered, risk carried, and private capital invested – not merely cost incurred. Commercial benchmarks will inform negotiation objectives but will not constitute caps. The policy will reward efficiency, speed, and performance; weigh the financial health of fragile supply-chain chokepoints; and address sustained loss positions prospectively through fair pricing of future work. Nothing in this action alters applicable cost-allowability requirements for cost-reimbursement work. Healthy and reasonable margins drive innovation and excellence.

Require a basis for requirements. Within 90 days, building on the inventory completed under the Acquisition Transformation Strategy, every recurring review, checklist, data demand, or approval imposed below the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) will be annotated with the authority that requires it. Requirements grounded in operational safety, security, and classification authorities are not subject to automatic lapse. Any other uncited item will be suspended for new use and will lapse unless the cognizant Component Acquisition Executive reaffirms it within 30 days. No new procedural requirement may be issued without its basis stated on its face.

Modernize forward-pricing support. Direct that DCMA immediately work with DCAA to overhaul the approach to establishing and maintaining forward pricing rate agreements (FPRAs) consistent with this memorandum, drawing on rate data maintained in the ordinary course of business. FPRAs will be used only where they accelerate recurring, high-volume negotiations and enable a more efficient process for the Department and for industry.

Implement supplier cost and pricing transparency consistent with this memorandum. Within 30 days, issue the implementing procedures for the August 18, 2026, memorandum so that price information is obtained first and cost information to the extent needed to establish a fair price; commercial products and services are priced under the statutory limits that apply to them; cost information is requested in the form the contractor already maintains; contractor denials are handled under the process the law provides; information received is used only for the pricing action for which it was requested; and no automated access to contractor systems without express contractual authorization and applicable security protections. Nothing in the procedures alters the thresholds or exceptions for certified cost or pricing data. The procedures will state that, consistent with Executive Order 14402, cost-reimbursement contracting remains appropriate for research and for the development of major systems, and is otherwise the exception.

The USW(C) will:

Advance CAS coverage reform at the Board. With the support of the USW(A&S), develop and formally transmit to the Cost Accounting Standards Board the Department's proposals for: (a) a class exemption making exemption the default, with CAS coverage limited to cost-based development contracts of major scale awarded without adequate price competition; (b) coverage that attaches to the covered contract and the indirect-cost pools material to it, with no entity-, segment-, or flowdown-attachment; (c) completion of the CAS-to-GAAP conformance begun with the July 8, 2026, final rule, so that GAAP is the baseline and government-unique requirements survive only where cost-based pricing specifically demands them; and (d) a modernized Disclosure Statement – a short certification that contract cost accounting follows the contractor's annual GAAP financial statements, audited by a registered independent public accounting firm, supplemented only by legally required disclosures, with a schedule of departures, in a machine-readable, versioned electronic submission format. Transmit the supporting analysis to the Board and report monthly to the Deputy Secretary until the Board acts.

Ensure audits are risk-based. Within 60 days, direct that the Department consider a contractor's audited GAAP financial statements and internal-control attestations before performing additional work. Ensure that no office will request an audit of a cost or system that has already been audited or reopen closed years absent indicators of fraud or material misstatement. Every audit will identify the risk, its materiality to a government decision, the records needed, and why existing evidence is insufficient.

Recommend the Department's Cost Accounting Standards Board representative. Within 30 days, in coordination with the USW(A&S) and the General Counsel, recommend to the Secretary, through the Deputy Secretary, the appointment of the Department's best-qualified representative to the Cost Accounting Standards Board under the Secretary's appointment authority. The representative will have substantial experience administering and managing covered contracts and will be selected consistent with section 1806 of the National Defense Authorization Act for Fiscal Year 2026 and advance compliance with the Board-member eligibility requirements at 41 U.S.C. 1501(b)(4).

The USW(A&S) and the USW(C) will jointly:

Consolidate contractor business systems. Within 90 days, through the business-systems line of effort under way, issue class deviations where required, and direction to:

- Consolidate estimating-system and material-management-and-accounting-system requirements into simplified, commercial-aligned accounting-system criteria and retire their separate reviews – retaining statutory proposal-integrity protections, inventory-accounting standards, and standards for consistent cost estimation, accumulation, and reporting – with accounting-system adequacy outside the covered CAS core assessed against the FAR's condition for the contract type, satisfied by the contractor's GAAP books and a contract-level ledger meeting applicable allowability rules;

- Confine earned value management to major development programs and, where the Government retains cost risk, major long-duration production programs, with the boundary set in the implementing deviation; retire the separate government system-validation regime, using integrated baseline reviews to assess contract baselines; and accept schedule, actuals, and estimate-at-completion data from contractors' native systems;

- Reduce contractor burden by relying on government-wide FAR property-stewardship duties and remedies, aligned with commercial practices and tools, rather than a separate review overlay; and

- Raise the purchasing-system-review threshold under existing FAR authority, reserve reviews for demonstrated risk, and apply the statutory rule that an approved purchasing system ends subcontract-consent withholding; and

- Establish a 90-government-day clock for final disposition of contractor's corrective action plan, tolled while necessary contractor information is outstanding and elevated to the head of the contracting activity upon expiration.

No Component may recreate a retired regime through local policy, checklists, approvals, or clauses. To the maximum extent permitted by law and contract, Components will cease enforcing superseded requirements, and contracting officers will offer bilateral no-cost modifications removing affected clauses at the next practicable opportunity.

Simplify business-system review. Within 60 days, publish clear, specific, and publicly available commercial-aligned criteria for contractor business systems and issue a class deviation, grounded in the Department's statutory reliance authorities, accepting a registered independent public accounting firm's certification against those criteria in place of Department review. The deviation will set a reasonable effective date aligned, where applicable, with contractors' annual financial-statement audit cycles. Effective immediately, discretionary review requires a written determination of specific, material risk by the cognizant contracting activity, coordinated with the requiring Component Acquisition Executive or designee. For multi-Component facilities, the Defense Contract Management Agency (DCMA) will identify the cognizant Component.

Publish the efficiency assurance. Within 30 days, issue a joint enforcement-posture statement that, for fixed-price contracts and other transactions, to the extent the performer bears the cost risk: a performer that becomes more efficient against a fairly negotiated price keeps the savings for that contract, and the Department captures efficiencies only prospectively, in the next negotiation, at a fair margin. This statement scopes enforcement priorities and will be incorporated in the profit policy revision; it does not waive statutory remedies for fraud or defective pricing, CAS price adjustments where CAS applies, or final indirect-cost-rate settlement on cost-reimbursement work.

The Secretaries of the Military Departments, through their Acquisition Executives, will:

Implement Portfolio Acquisition Executive authorities. The recommended authorities in the Portfolio Acquisition Executive Operating Framework's addendum are the default. Within 120 days of the Framework's issuance, each Component's implementation plan will delegate those authorities. Any exception requires the Component Head's signature, the specific reason, and an alternative that delivers the same speed, and will be submitted to the Deputy Secretary with the plan.

The Director, Defense Innovation Unit, will:

Scale advance market commitments. Within 180 days, with support from the USW(A&S) including Defense Production Act authorities as needed, structure additional advance market commitments, including aggregated allied demand consistent with the America First Arms Transfer Strategy, building on the early success of the Drone Dominance initiative in piloting demand-pull procurements that unleash market forces and create price signals for robust supply chains. These commitments shall reward demonstrated performance and delivered scale, operate within existing resources, and comply with applicable fiscal law.

The Director of Administration and Management, as part of the ongoing Defense Agency and DoW Field Activity review, will:

Align the contract-oversight enterprise. Within 90 days, with the USW(A&S), the USW(C), the Military Departments, DCAA, and DCMA, deliver options to the Deputy Secretary for clarifying roles and charters, eliminating duplication, and addressing workforce effects. Preserve mission-critical contract-administration functions, including government flight operations, product acceptance, facilitating contractor payment, property administration, and supplier quality assurance.

The USW(A&S), with the USW(C), will:

Measure results. Within 90 days, define and baseline: government-unique requirements eliminated; business units under full CAS coverage; business systems subject to review; audit and oversight cycle time; commercial content; performers at production per program, paired with unit-cost and affordability effects; new entrants and returning commercial firms; and declined solicitations, where observable. Report quarterly thereafter. These measures are the test of this memorandum.

This memorandum is effective on signature. No new organization or compliance framework will be created. No discretionary study, pilot, working-group determination, or approval not required by law may delay these actions. Subordinate Department guidance inconsistent with this memorandum will be revised within 90 days.

All actions will comply with applicable statutes and appropriations law. Nothing in this memorandum authorizes obligations in excess of available appropriations, directs the scope, findings, or conclusions of any audit, or alters any authority vested by statute. Where additional authorities are required, the USW(A&S) will develop a legislative engagement plan to secure and support those authorities and the durability of these reforms. Department-approved artificial intelligence tools may be used to reduce document-preparation burden and expedite execution time.