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**Response to the Office of Management and Budget's Proposed Rule
*Regulation for Federal Financial Assistance***

The [Special Competitive Studies Project \(SCSP\)](#) is pleased to submit this response to the Office of Management and Budget's (OMB) proposed rule, *Regulation for Federal Financial Assistance*, which would substantially revise the government-wide regulations governing federal grants, cooperative agreements, and other forms of federal financial assistance. SCSP builds upon the work of the [National Security Commission on Artificial Intelligence \(NSCAI\)](#), continuing its mission to ensure the United States remains competitive in a world shaped by emerging technologies. Our work focuses on the intersection of technological leadership and national strategy, particularly in relation to artificial intelligence and the research and innovation ecosystem that sustains it. In this submission, we address four foundational concerns raised by the proposed rule: preserving **merit-based review** as the foundation of federal research awards; ensuring **predictable and durable award conditions** for long-term research; accounting for the **private-sector effects** of research policy; and adopting a **technology-competitiveness impact assessment** for major changes to federal research programs. These issues lie at the core of strengthening the U.S. strategic position in the face of rising authoritarian challengers like the People's Republic of China.

SCSP supports OMB's goals of improving transparency, accountability, research integrity, and stewardship of taxpayer resources. Federal agencies must retain the authority and institutional capacity to ensure that awards comply with law, advance valid program objectives, and produce meaningful results.

However, the proposed rule would fundamentally change how the federal government selects, manages, suspends, and terminates research awards. In particular, the proposed revisions would require senior appointee review of discretionary awards, direct reviewers to consider presidential policy priorities, expressly characterize peer-review recommendations as advisory, and permit awards to be terminated when they no longer advance changing agency priorities or conceptions of the national interest.

Applied without clear limits, these provisions could introduce significant uncertainty into long-term research programs, reduce the weight afforded to scientific expertise, and weaken the stability of the public-private research ecosystem. Those consequences would extend well beyond universities or individual grant recipients. They would affect the companies, investors, national laboratories, entrepreneurs, and national-security institutions that rely on federally supported science to generate new knowledge, cultivate talent, and create commercially and strategically important technologies.



OMB should revise the proposal to preserve appropriate executive oversight while protecting merit-based scientific evaluation, continuity in multiyear research, responsible collaboration, and the confidence of private-sector partners. These are not merely administrative considerations. They are essential elements of America's national innovation power.

I. The Federal Research Enterprise Is a Strategic National Asset

The United States is entering a period of technological competition in which leadership in artificial intelligence, biotechnology, quantum information science, semiconductors, robotics, advanced manufacturing, and other emerging fields will shape economic prosperity, military advantage, and geopolitical influence. The strength of the U.S. position will depend in significant part on the effectiveness of its research and innovation ecosystem.

American technological leadership has never been the product of government, academia, or industry acting alone. It has resulted from a dynamic system in which the federal government supports foundational and high-risk research; universities and laboratories generate discoveries and train technical talent; private companies develop and commercialize technologies; and investors provide capital to scale promising innovations.

SCSP has described this system as a broader and more complex ["geometry of innovation."](#) extending beyond the traditional relationship among government, academia, and industry. The government's role remains indispensable because private investment generally favors nearer-term commercial opportunities, while federal research funding can provide patient capital for foundational science, long development cycles, shared research infrastructure, and projects whose public benefits exceed their immediate commercial returns.

This public-private relationship is especially important in deep-technology sectors. Breakthroughs in biotechnology, quantum technologies, advanced energy, robotics, and semiconductor manufacturing may require years of basic research, specialized facilities, substantial upfront investment, and sustained technical effort before they become commercially viable. Instability in federal research policy therefore creates downstream uncertainty for the private sector as well as for research institutions.

The proposal should be evaluated against an already challenging competitive landscape. SCSP has found that federal support for research and development has declined substantially relative to the size of the U.S. economy. Between 2010 and 2019, the federally funded share of national R&D dropped by nearly one-third. SCSP has consequently recommended increasing federal R&D investment to one percent of gross domestic product by 2030.

At the same time, the People's Republic of China has been expanding its own research capabilities and aligning government resources, industrial capacity, talent, and technology policy around national objectives. SCSP reported that China's total R&D investment increased by more than 10 percent to approximately \$421 billion in 2022.



In artificial intelligence, SCSP has also noted that federal AI R&D spending remains well below the \$32 billion annual level recommended by NSCAI. That existing gap between strategic ambition and implementation already threatens the nation's ability to sustain leadership in a foundational technology. Federal policy should not compound the funding gap by making research awards less predictable, reducing confidence in merit-based selection, or discouraging participation by leading researchers and private-sector partners.

II. Merit-Based Review Should Remain the Foundation of Federal Research Awards

The proposed § 200.205 would require agencies to maintain a merit-review process, but it would also require one or more senior appointees to conduct a pre-issuance review of all discretionary awards. The proposal directs those appointees to determine whether awards are consistent with agency priorities and the national interest and, where applicable, whether they “demonstrably advance the President's policy priorities.” The proposal further states that peer-review recommendations must remain advisory and may not be routinely deferred to or treated as effectively binding.

SCSP recognizes that Executive Branch officials are accountable for administering federal programs and ensuring that funds are used consistently with law and authorized program purposes. Political accountability and scientific expertise need not be mutually exclusive.

The proposed text, however, does not sufficiently distinguish between legitimate policy oversight and the substantive evaluation of scientific quality. In highly technical fields, the assessment of novelty, feasibility, methodology, reproducibility, and potential scientific significance requires specialized expertise. Senior appointees may appropriately determine whether a program advances lawful national objectives, but they should not displace expert evaluation of the scientific merits of individual proposals absent a clear, documented reason connected to law, program eligibility, research security, or the stated criteria of the funding opportunity.

SCSP's technology assessments illustrate why preserving technical expertise is essential. In robotics for advanced manufacturing, SCSP's [2026 Tech Competition Scorecard](#) found that China holds a decisive overall lead. Although the United States retains a narrow advantage in cutting-edge innovation, it lags significantly in industrial capacity, market ecosystem, talent pipeline, and national leverage.

In [quantum information science](#), the United States remains only slightly ahead of China across the sector, with the competition turning on closely contested advantages in innovation leadership, industrial capacity, market development, and talent.

These assessments demonstrate that the United States cannot assume that its current scientific advantages are permanent. Award decisions in such fields should be informed by rigorous technical judgment, not short-term political considerations that may shift more rapidly than the underlying research and technology-development cycles.



SCSP recommends that OMB revise § 200.205 to:

1. State expressly that scientific and technical merit, as evaluated through qualified expert review, will remain the primary basis for selecting research proposals within the scope of an authorized program.
2. Limit senior-appointee pre-issuance review to compliance with law, consistency with the published funding opportunity, research-security considerations, programmatic relevance, and other criteria disclosed to applicants in advance.
3. Require written documentation when a senior appointee rejects or materially alters a funding recommendation supported by the agency's scientific merit-review process.
4. Require that the explanation identify the specific statutory, regulatory, security, programmatic, or published award criterion supporting the decision.
5. Provide that presidential or agency policy priorities may guide the design of research programs and funding opportunities, but may not retroactively replace the scientific and technical evaluation criteria announced in the notice of funding opportunity.

These revisions would preserve appropriate executive authority while reducing the risk that technical decisions are perceived as arbitrary, ideologically driven, or disconnected from scientific excellence. They would also provide greater predictability to companies, universities, and other institutions deciding whether to commit personnel, facilities, matching resources, and intellectual property to federally supported projects.

III. Long-Term Research Requires Predictable and Durable Award Conditions

The proposed revisions would permit an agency to terminate a discretionary award when the agency determines that termination is in its interest, including when an award no longer advances program goals, agency priorities, or the national interest as those considerations exist at the time of termination. Recipients would receive a brief explanation, but the proposal would not generally require an opportunity to object, a hearing, or an administrative appeal for a discretionary termination.

SCSP agrees that the government should retain the authority to terminate awards involving noncompliance, misuse of funds, legal violations, material performance failures, or serious changes in national-security conditions. The proposed provision, however, reaches substantially further by permitting termination based on priorities that may change after an award has been completed, peer reviewed, selected, and initiated.

That degree of uncertainty is poorly suited to scientific research. Frontier research often requires multiyear commitments, specialized equipment, recruitment of highly skilled personnel, collaboration among multiple institutions, and contractual relationships with private-sector partners. Research results cannot be produced on the same timetable or through the same risk-allocation model as ordinary commercial procurement.

A grant may support a laboratory team, doctoral researchers, clinical or experimental cohorts, unique data collection, fabrication of custom equipment, or operation of specialized research infrastructure. Interrupting such work can destroy value that cannot be recovered simply by reimbursing costs incurred before termination. It can result in the loss of personnel, data, biological materials, experimental continuity, supplier relationships, and private co-investment.

The comparison in the proposed rule between federal grants and procurement contracts therefore requires caution. Procurement generally involves the government purchasing a defined product or service for its direct use. Research grants frequently support uncertain, exploratory, and cumulative work intended to produce broad public benefits. A termination-for-convenience model imported too broadly from procurement could undermine precisely the long-term scientific risk-taking that federal research programs are designed to support.

SCSP recommends that OMB:

1. Exclude competitively awarded research grants from discretionary termination based solely on a subsequent change in presidential or agency policy priorities, absent a specific legal, security, performance, or program-integrity basis.
2. Alternatively, require a heightened standard for terminating an active research award, including a written determination that continued funding would materially conflict with law, national security, the award's statutory purpose, or clearly articulated program objectives.
3. Require agencies to consider the consequences of termination for scientific continuity, research personnel, data integrity, private-sector partners, subrecipients, specialized infrastructure, and the government's broader technology objectives.
4. Provide recipients a meaningful opportunity to respond before termination, except in urgent circumstances involving national security, public safety, fraud, or misuse of funds.
5. Require review by an agency scientific-integrity official, chief scientist, or equivalent technical authority before terminating a class of research awards.
6. Require a transition or wind-down plan when abrupt termination would destroy unique data, specimens, equipment, research infrastructure, or other assets of continuing value to the United States.
7. Require public reporting on discretionary terminations of research awards, including the general basis for termination, the value and duration of the affected awards, and the steps taken to mitigate damage to ongoing research and public-private partnerships.

Predictability does not mean that every award must continue regardless of circumstances. It means that researchers and private-sector partners should be able to rely on the terms under which an award was made unless a material and clearly articulated reason justifies government action.



IV. OMB Should Account for the Private-Sector Effects of Research Policy

The proposed rule treats federal financial assistance principally as a relationship between the government and the direct recipient. In the research context, however, the consequences of award policy extend through the entire innovation ecosystem.

Private companies frequently participate in federally supported research as collaborators, subcontractors, equipment providers, data partners, commercialization partners, or eventual customers. Venture investors also make decisions based in part on whether federal research programs are likely to generate technical progress, validate emerging fields, create shared infrastructure, or reduce early-stage scientific risk.

The private sector cannot substitute for federal support in all areas. Companies are generally better positioned to finance development and commercialization when a plausible market and deployment pathway exist. The federal government is often uniquely positioned to support foundational research, shared scientific resources, high-risk technical exploration, and research whose benefits are diffuse or long term.

SCSP's work has emphasized that public and private investment must reinforce one another. Federal investment can create knowledge, infrastructure, and technical opportunities that draw in nonfederal capital. Conversely, unstable or unpredictable federal policy can deter private participation and weaken the translation of discoveries into deployed technologies.

SCSP therefore recommends that OMB require agencies to consider:

- Whether a proposed award policy could discourage private-sector participation or co-investment;
- Whether it could interrupt commercialization pathways or public-private research partnerships;
- Whether it could make the United States less attractive to globally mobile scientific and technical talent;
- Whether it could weaken strategically important domestic supply chains or research infrastructure; and
- Whether it could create an advantage for foreign competitors operating under more stable long-term national technology strategies.

OMB should also establish a formal mechanism for consultation with private-sector research leaders, startups, investors, national laboratories, universities, and technical societies before agencies implement material changes to research-award selection or termination procedures.

V. OMB Should Adopt a Technology-Competitiveness Impact Assessment



Before implementing major changes affecting federal research programs, OMB and federal science agencies should conduct a technology-competitiveness impact assessment.

OMB's own analytic record for this rulemaking underscores the need for such an assessment. The Regulatory Flexibility Act analysis accompanying the proposed rule evaluates only direct administrative burdens—monitoring, documentation, payment justification, and related compliance activities—and concludes that the resulting costs will be “modest and primarily administrative.” Neither that analysis nor the supporting regulatory materials examines the rule's potential effects on research continuity, private co-investment, the scientific and technical talent pipeline, or the United States' position in strategic technology competition. Yet forgone discoveries, interrupted development pathways, deterred private capital, and talent lost to foreign competitors are real economic and national-security costs, even though they do not appear as line-item paperwork burdens. An analytic framework that omits these dynamic effects cannot support a fully informed judgment about a rule that restructures how the federal government selects, oversees, and terminates research awards.

The assessment should examine whether the relevant policy is likely to strengthen or weaken:

- U.S. innovation leadership;
- Industrial and technological capacity;
- The market and commercialization ecosystem;
- The scientific and technical talent pipeline;
- Public-private partnerships;
- Responsible international research collaboration;
- The development of strategically important technologies; and
- The nation's leverage relative to major technological competitors.

These categories draw from [the framework SCSP uses to evaluate national positions in critical technologies](#): innovation leadership, industrial capacity, market ecosystem, talent pipeline, and national leverage.

Applying such a framework would not prevent the Administration from setting policy or exercising lawful oversight. It would ensure that decisions affecting the nation's research base are informed by their likely consequences for economic security, national security, and long-term technological leadership.

VI. Recommended Revisions

SCSP respectfully urges OMB to revise the proposed rule before finalization. ***At minimum, the final rule should:***



1. Preserve expert scientific and technical merit review as the primary basis for research-award selection.
2. Define and limit the role of senior appointees in reviewing individual scientific proposals.
3. Require written, reviewable explanations when political or policy officials override expert funding recommendations.
4. Prevent undisclosed or subsequently adopted policy criteria from being applied retroactively to pending proposals.
5. Establish a heightened standard and procedural protections for discretionary termination of active research awards.
6. Require agencies to assess impacts on scientific continuity, talent, research infrastructure, private-sector partners, and national competitiveness.
7. Create transparency and reporting requirements for overrides, suspensions, and discretionary terminations involving research awards.
8. Require consultation with private-sector and scientific stakeholders during agency implementation.
9. Adopt a technology-competitiveness impact assessment for major changes to federal research policy.
10. Phase in any final changes and provide agencies with sufficient time to establish consistent, technically informed implementation procedures.

On the final point, OMB expressly invited comment on whether targeted exemptions, phased implementation, or tailored guidance would better support affected entities while maintaining the effectiveness of the proposed revisions. For federally supported research, the answer is yes. A proposed effective date of October 1, 2026—barely ninety days after the close of this comment period—would apply new selection, oversight, and termination frameworks to awards issued in fiscal year 2027 before agencies have developed the procedures, training, and technical review structures needed to implement them consistently. SCSP recommends that OMB phase in the provisions affecting research awards and direct agencies to issue tailored implementation guidance for research-intensive programs.

The United States faces a consequential competition for scientific and technological leadership. China is investing heavily, aligning public and private resources, expanding technical capacity, and working systematically to reduce its dependence on foreign technologies. Meanwhile, the United States already faces gaps in federal R&D investment, industrial capacity, talent, and the translation of scientific discoveries into deployed capabilities.

At such a moment, the United States should strengthen accountability without weakening the institutional characteristics that have made American science successful: technical excellence,



merit-based evaluation, long-term inquiry, institutional pluralism, talented people, and productive connections among government, academia, industry, and investors.

The central question is not whether federal agencies should maintain control over taxpayer funds. They should. The question is whether the rules governing that control reinforce or undermine the innovation ecosystem that has made the United States the world's leading scientific and technological power.

SCSP encourages OMB to revise the proposal to provide clearer limits, stronger procedural safeguards, and explicit protection for scientific merit, research continuity, private-sector participation, and national technology competitiveness. Doing so would advance the Administration's objectives of accountability and effective grant management while preserving one of the nation's most important strategic assets.

SCSP Resources for Reference

- [SCSP Mid-Decade Challenges to National Competitiveness](#): SCSP's foundational report outlining a strategic roadmap for preserving U.S. leadership in emerging technologies amid intensifying competition with the People's Republic of China, including recommendations on federal research investment and the organization of the national innovation ecosystem.
- [Harnessing the New Geometry of Innovation](#): This report diagnoses the techno-economic competition, compares U.S. and PRC approaches to innovation, and describes the expanded public-private “geometry of innovation” on which American technological leadership depends.
- [SCSP 2026 Tech Competition Scorecard: Robotics](#): SCSP's net assessment of the U.S.-China competition in robotics for advanced manufacturing, finding a decisive overall Chinese lead across industrial capacity, market ecosystem, talent pipeline, and national leverage.
- [SCSP 2026 Tech Competition Scorecard: Quantum](#): SCSP's net assessment of the U.S.-China competition in quantum information science, finding a slight overall U.S. lead that is being eroded by China's coordinated, state-backed strategy.
- [SCSP 2025 Gaps Analysis](#): SCSP's evaluation of the strategic balance of power between the United States and China across twelve critical technology areas, providing the analytic foundation for the Tech Scorecard framework.