

Memorandum

Leases

April 7, 2026

To: Members of the Board
From: Ricky A. Perry, Jr., Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: Embedded Leases Practical Expedient (**Topic A**)

OBJECTIVES

1. Discuss updates to the draft exposure draft and the related issues and options.
2. Discuss timelines and next steps, including electronic balloting, the proposed comment period length, and the target issuance date.

REQUEST FOR FEEDBACK BY APRIL 24

Prior to the April meeting, please review the enclosed staff analysis (attachment 1), the pre-ballot draft (attachments 2), and project plan (attachment 3). Please respond to the ensuing questions by April 24.

NEXT STEPS

Pending Board feedback, staff will implement any finalizing changes discussed during the April meeting and distribute a ballot copy, along with electronic ballots, soon after the meeting. The Board may decide to electronically review an additional pre-ballot draft prior to balloting, although this may affect the project timelines.

ATTACHMENTS

1. Staff analysis
2. Pre-ballot exposure draft: *SFFAS XX: Embedded Leases Practical Expedient*
3. Updated leases project plan

REFERENCE MATERIALS

1. [December 2025, Topic A : Leases briefing materials \(includes working draft\)](#)

Staff Analysis

Leases

April 7, 2026

Attachment 1

INTRODUCTION

At the December 2025 meeting, the Board discussed a working draft practical expedient proposal for “embedded leases,” along with certain conforming amendments. Members generally agreed with the proposal and instructed staff to complete the drafting and provide an analysis of the issuance timelines and the proposed effective date.

Summary of analysis and recommendations

Staff’s ensuing analysis discusses additional research and working group feedback provided following the December meeting and proposed enhancements to the proposals included in the December working draft. These enhancements generally streamline and clarify the proposal to facilitate consistent implementations. The analysis also discusses timelines and the effective date.

Based on the ensuing analysis, staff recommends the following updates to the December working draft, as reflected in attachment 2:

- Changes to clarify the proposed amendments to SFFAS 54, *Leases*, including paragraphs 77C and 77E, and the scope section, and reorganize the presentation of the proposed amendments under two sections based on the nature of the amendment. See items A1-A4 below.
- Rescinding paragraphs 96A-96E and SFFAS 62, *Transitional Amendment to SFFAS 54*. Based on additional research, staff believes these amendments will simplify application of the practical expedient and allow practitioners to apply paragraphs 77A-77E to any contracts or agreements previously falling under the transitional accommodation. See item B1 below.
- An effective date for reporting periods beginning after September 30, 2026, with early implementation permitted. See item B2 below.
- An executive summary, questions for respondents, and basis for conclusions based on the project history, including research, Board deliberations, and instructions from members to include explanatory language to facilitate informed responses to the exposure draft. See items C1-C3 below.

- Next steps and timelines designed for a projected final issuance in November 2026. See part D below.

ANALYSIS

Items A1-A4 summarize proposed changes since the December working draft and, where applicable, other identified alternatives for the Board to consider. These changes are intended to clarify the proposed practical expedient and facilitate respondent review of the proposals. The changes are reflected in attachment 2.

Part A: Changes to the working draft proposed standards since December

Item A1. Removal of paragraphs from the scope section.

Based on internal review and consultations with working group members, staff removed paragraphs 2 and 4 from the December working draft. Paragraphs 1-3 (after renumbering) provide the appropriate scope information section. Certain language removed from paragraph 4 of the December draft was integrated into paragraph 3 in attachment 2.

Item A2. Reorganization of paragraphs.

Based on internal review, staff believes it would facilitate respondent review to organize the proposed amendments by section, as follows: (1) proposed practical expedient, and (2) proposed conforming amendments. Such organization would allow respondents to navigate the proposal and understand the nature of the amendments contained in each section when responding to the questions asked of them.

The reorganization of paragraphs is not tracked in attachment 2. The December working draft contained one section that contained all amendments based on the corresponding order of paragraphs contained in SFFAS 54, which resulted in the practical expedient amendments being sandwiched between conforming amendments.

Item A3. Clarification and streamlining of paragraph 77C.

The first sentence of paragraph 77C was amended based on consultations with working group members to (a) simplify the proposed guidance to ensure that practitioners apply it to modifications of any previously eligible contract (including those under the previously effective transitional accommodation)¹ and (b) clarify the initial measurement date. Staff believes that these amendments are consistent with Board feedback at the December meeting to clarify the proposal.

The second sentence of the original paragraph 77C was removed because paragraphs 85-86 of SFFAS 54, which pertain to remeasurements, would not apply to modifications

¹Paragraph 77A carries forward the eligibility conditions of SFFAS 62, par. 96A, thereby making par. 77C guidance on modifications applicable to contracts or agreements eligible for the transitional accommodation.

of contracts or agreements that were previously unrecognized due to the practical expedient.

These proposed changes to the December working draft are reflected in attachment 2 and figure 1 below.

Figure 1

77C. For any contract or agreement modifications contacts or agreements to which the practical expedient was applied is subsequently modified and, as a result, that result in the contracts or agreements no longer meetings the conditions set forth in paragraph 77A, paragraphs 73-74 should be prospectively applied based on the remaining term(s) of the lease component(s) and associated payments as of the effective date of the modification. Lease component modifications should be accounted for in accordance with paragraphs 84-86. However, if such modifications are accounted for as a separate or new lease under paragraph 84 and, as a result, the remainder of the contract or agreement continues to meet the conditions of paragraph 77A, the reporting entity may elect to continue to apply the practical expedient under paragraph 77B to the remainder of the contract or agreement.

Item A4. Removal of discretionary disclosures.

Based on consultations with the working group and a Board member, staff recommends removal of the discretionary disclosures from paragraph 77E, as reflected in attachment 2. While practitioners are not prohibited from providing the additional information, such information would often be immaterial and may create an imbalance of disclosures of immaterial leases. Furthermore, the Board does not generally provide discretionary disclosure guidance in basic information requirements.

Alternatively, the Board could continue to include these proposed discretionary disclosures in the proposal or include them as requirements.

- Such an approach would be consistent with lessor disclosure requirements under Financial Accounting Standards Board (FASB) ASC 842-20-50-3A, which provides for similar disclosures for lessors. Specifically, it requires lessors to disclose the classes of underlying assets for which they applied the ASC 842-10-15-42A expedient and the nature of the contract components combined as a result. This approach could also allow respondents to provide feedback and information to better inform the Board's disclosure requirements during the finalization phase of the project.
- These disclosures may reduce the expected cost savings of applying the practical expedient and result in disclosure on the nature of non-lease components of contracts or immaterial embedded lease components. Such an approach would be inconsistent with extant SFFAS 54 requirements, which do not require disclosures of non-lease component information or application of the

paragraph 76 expedient (which allows certain multiple component contracts to be combined in a single lease unit if certain conditions are met).

Staff recommendation #1:

1. To clarify and simplify the proposed practical expedient, staff recommends items A1-A4, as described above and reflected in attachment 2.

Question for the Board:

1. Do members agree with staff recommendation #1 and the associated analysis? If not, which alternative(s), or combination thereof, do members favor?

Part B: Proposed rescission of paragraphs 96A-96E, effective date

Items B1-B2 summarize additional proposed changes since the December draft regarding the effective date and rescinding paragraphs 96A-96E. Some members expressed concerns with providing simultaneous relief pathways at the December meeting. Staff believes that the changes implemented under item A3 above, along with items B1-B2 below, will be more understandable to practitioners and provide for more consistency. These changes maintain alignment with the overall intent of the proposal while clarifying and streamlining the effective SFFAS 54 standards beginning in fiscal year 2027.

Item B1. Rescinding paragraphs 96A-96E.

Based on consultations with the working group and Board member, staff recommends rescinding paragraphs 96A-96E of SFFAS 54 and SFFAS 62. The expiration of the transitional accommodation period, coupled with the superseding permanent guidance provided by the proposed expedient (including the changes to par. 77C), result in these paragraphs no longer being necessary.

Staff recommends including an explanatory clause to introduce the rescissions will help respondents understand the basis for this approach (see figure 2 below). Furthermore, the proposed basis for conclusions, paragraphs A9-A10, reinforce that the eligibility conditions of the transitional accommodation are being made permanent (see attachment 2).

Figure 2

8. Due to the expiration of the transitional accommodation period and the practical expedient amendments above, SFFAS 62 and its transitional amendments under paragraphs 96A-96E of SFFAS 54 are rescinded.

Alternatively, the Board may leave paragraphs 96A-96E unrescinded.

- The transitional nature of these paragraphs is clear based on their wording and placement within the standard. Leaving the paragraphs in the standard could facilitate practitioner research.
- Leaving the paragraphs in could also confuse practitioners based on the overlapping concepts that would appear regarding modifications (both par. 77C and 96C) and disclosures (both par. 77E and 96E). At the December meeting, the Board discussed the clarity of disclosure requirements during fiscal year 2027 and potential inconsistencies in the application of those requirements. Staff presented an approach to working group members whereby the Board could footnote paragraph 77E to clarify the non-applicability of paragraph 96E during fiscal year 2027 (or fiscal year 2026, if early adopted). Working group members found this approach to be somewhat confusing and unnecessarily complex.

Item B2. Effective date.

Staff recommends a fiscal year 2027 effective reporting period due to the expiration of the transitional accommodation period on September 30, 2026. Based on the project plan and timelines (see attachment 3 and part D below), the Board will have sufficient time to issue the proposed practical expedient before fiscal year 2027. For this reason, staff is not recommending alternatives for extending the transitional accommodation period.

The proposal also permits early implementation. This would allow reporting entities, if practicable, to update their significant accounting policies and disclosures for fiscal year 2026 reporting and omit the superseded disclosures under paragraph 96E.

Staff recommendation #2:

2. To clarify and simplify the proposed practical expedient and the scope/ applicability of embedded leases relief available beginning in fiscal year 2027 (or earlier, if early adopted), staff recommends items B1-B2, as described above and reflected in attachment 2.

Question for the Board:

2. Do members agree with staff recommendation #2 and the associated analysis? If not, which alternative(s), or combination thereof, do members favor?

Part C: Other updates to the draft

Additional changes for members to review and discuss include the executive summary, questions for respondents, and basis for conclusions sections of the document.

Item C1. Executive summary.

The draft executive summary provides an overview of the proposed standards. The conforming amendments and technical details of the practical expedient are not discussed at length due to the nature and purpose of this section.

Item C2. Questions for respondents (QFRs) and specific matter for comment (SMC).

The draft QFRs and SMC are organized as follows:

- QFR1 seeks feedback on the proposed practical expedient
- QFR2 seeks feedback on the proposed conforming amendments.
- QFR3 seeks feedback on the proposed rescissions of paragraphs 96A-96E and SFFAS 62 and effective date.
- SMC1 seeks specific feedback on the proposed modifications guidance and any known examples of or observations on the frequency (or infrequency) of such modifications in practice.

Staff believes the foregoing QFRs will facilitate comprehensive responses to the proposals. The SMC is intended to provide helpful information to the Board regarding the expected benefits and commonality of modifications affecting primary purpose attributions.

Item C3. Basis for conclusions.

- Paragraphs A1-A4 discuss early project history. Paragraph A4 provides context behind the research for the exposure draft proposal.
- Paragraphs A5-A6 discuss more recent project history, including implementation monitoring and reviews of disclosures. These paragraphs serve as a basis for the Board's overall basis for the proposal, as described in paragraphs A7-A8.
- Paragraph A9 discusses the overall alignment of the proposal with the transitional accommodation.
- Paragraph A10 discusses modifications and the Board's expectation that modifications affecting primary purpose attributions will be rare. The paragraph provides a basis for providing guidance under proposed paragraph 77C notwithstanding the rarity of such modifications.

Staff recommendation #3:

3. Staff recommends the updates described under items C1-C3 and reflected in attachment 2.

Questions for the Board:

3. Do members agree with staff recommendation #3 and the associated analysis?
 - a. Do members have any suggested revisions or improvements to the executive summary?
 - b. Do members have any suggested revisions or additions to the QFRs or SMCs?
 - c. Do members have any suggested revisions or additions to the basis for conclusions?

Part D: Timelines and next steps

Staff developed a project plan that could allow for September 2026 issuance. The below plan can be further modified to address due process or other contingencies that could further delay issuance.

The project plan is presented in attachment 3, with detailed target / estimated timelines as follows:

April meeting: Discuss pre-ballot ED

04/30/26: Electronic ED balloting

05/01/26 – 07/30/26: Exposure period (90 days)

August meeting: Review responses (day 1) and discuss pre-ballot draft (day 2)

08/20/26 – 08/24/26: Electronic balloting of recommended SFFAS

08/25/26: 90-day review period begins

11/23/26: Projected final issuance date

The above timeline requires Board discussion and tentative approval regarding shortened electronic balloting periods for both the exposure draft and final SFFAS.

Balloting deadlines could be extended, if necessary, but extensions would likely result in corresponding shifts to the above timeline.

Staff does not believe that issuing a final pronouncement in the first quarter of fiscal year 2027 would interfere or hinder fiscal year 2027 implementation, given the similarities to the transitional accommodation to extant GAAP, awareness of key stakeholders with regard to this project, and the nature of the proposal and its expected benefits.

Staff could seek sponsor approval to make a pending copy of the pronouncement available during the sponsor review period and prior to the issuance date. Staff posted a pending copy of SFFAS 62 in the summer of 2023 after receiving approval from the sponsors.² At the time, one sponsor expressed reservations with this practice, but agreed based on the nature of the pronouncement and anticipated implementation cost savings. Although not expected, staff could seek similar approvals if the final issuance date moves beyond the first quarter of fiscal year 2027.

Staff recommendation #4:

Staff recommends the timelines and plans outlined above and reflected in attachment 3.

Questions for the Board:

4. Do members agree with staff recommendation #4 and the associated analysis? Please provide feedback on the shortened balloting periods, 90-day comment period, and other considerations.

² See *FASAB Newsletter*, Issue 201, at https://files.fasab.gov/pdf/issue_201_august_september_2023.pdf.



EMBEDDED LEASES PRACTICAL EXPEDIENT

AMENDING SFFAS 54, *LEASES*, AND RESCINDING SFFAS
62, *TRANSITIONAL AMENDMENT TO SFFAS 54*

Statement of Federal Financial Accounting Standards XX

Pre-ballot Exposure Draft

Written comments are requested by **July 30**, 2026

May 1, 2026

Public comments are not requested on this draft

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
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May 1, 2026

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards (SFFAS) titled *Embedded Leases Practical Expedient*. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by July 30, 2026.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to leases@fasab.gov. We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received. If you are unable to email your responses, please call (202) 512-7350 to make alternate arrangements.

We may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the Federal Register and in FASAB's newsletter.

Sincerely,

Signature to be added after receipt of ballots

Terry K. Patton
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

This proposed Statement of Federal Financial Accounting Standards (SFFAS) would amend the “contracts or agreements with multiple components” section of SFFAS 54, *Leases*, by providing a practical expedient to reporting entity lessees and lessors in the area of “embedded leases” (a common industry term which generally describes contracts or agreements that contain lease component[s] and nonlease component[s], such as service components, and serve a primary purpose attributable to the nonlease component[s]).

Under this proposal, reporting entities could apply the practical expedient to contracts or agreements meeting certain eligibility conditions and account for them as nonlease in their entirety. Reporting entities could apply the expedient to groups of contracts or agreements that are reasonably similar in nature. The proposal would allow reporting entities to potentially avoid the costs and complexities associated with identifying, separating, and allocating consideration to embedded lease components. Contracts or agreements with multiple components that do not meet the eligibility conditions would continue to be accounted for in accordance with paragraphs 72-77 of SFFAS 54.

Reporting entities electing the practical expedient would be required to disclose its election. These proposals would make the accommodations provided for the previously effective transitional accommodation available as a practical expedient.

MATERIALITY

The provisions of this Statement of Federal Financial Accounting Standards would not need to be applied to information if the effect of applying the provision(s) is immaterial.¹ A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

¹ Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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DRAFT

QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions for respondents (QFR) and specific matter for comment (SMC) below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <https://www.fasab.gov/documents-for-comment/>. Your responses should be sent to leases@fasab.gov. If you are unable to respond by email, please contact us at (202) 512-7350.

All responses are requested by July 30, 2026.

- QFR1.** Do you generally agree, partially agree, or disagree with the proposed practical expedient reflected in paragraph 8? The practical expedient would be inserted as a new sub-topic, paragraphs 77A-77E, under the “Contracts or Agreements with Multiple Components” topic of SFFAS 54, Leases. Please provide reasons for your views.
- QFR2.** Do you generally agree, partially agree, or disagree with the proposed conforming amendments to paragraphs 73, 74, 76, 79, and 96A-96E of SFFAS 54, as reflected in paragraphs 4, 5, and 7-9? These amendments are not intended to affect how the extant standards would be applied to contracts or agreements that are ineligible for the practical expedient. Please provide reasons for your views, including any suggested revisions or alternative/additional conforming amendments that you may suggest.
- QFR3.** Do you generally agree, partially agree, or disagree with the proposed rescission of paragraphs 96A-96E of SFFAS 54 and SFFAS 62 and the proposed effective date, as reflected in paragraphs 9? SFFAS 62 provided for a transitional accommodation for embedded leases through September 30, 2026. The proposed practical expedient would be effective for reporting periods beginning after September 30, 2026, with early implementation permitted.
- SMC1.** Proposed paragraph 77C is intended to provide guidance when a contract or agreement modification changes the primary purpose of the contract or agreement from nonlease component to lease component. The Board expects such modifications would be rare. Please provide feedback on this proposal, including any known examples of or observations on the frequency (or infrequency) of such modifications in practice.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFR), including the consolidated financial report of the U.S. Government, in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

~~Paragraph 72 of SFFAS 54, Leases, acknowledges that lessees and lessors may enter into contracts or agreements that contain both a lease component and a nonlease component. Paragraph 73 provides that the federal entity should account for lease and nonlease components as separate contracts or agreements.~~

2. Contracts or agreements that contain both lease component(s) and nonlease component(s), such as service components, and serve a primary purpose attributable to the nonlease component(s), are often viewed in practice as containing “embedded leases.”

~~This Statement amends SFFAS 54, Leases. It does not amend SFFAS 62, Transitional Amendment to SFFAS 54. Reporting entities may continue to elect to apply the transitional accommodation provided by SFFAS 62 rather than adopting the practical expedient provided by this Statement, if they so choose.~~

3. This Statement amends SFFAS 54, Leases, and rescinds SFFAS 62, Transitional Accommodation to SFFAS 54, to provides a practical expedient whereby contracts or agreements meeting certain “embedded leases” eligibility conditions may be accounted for as nonlease contracts or agreements in their entirety. Reporting entities may apply the practical expedient to groups of contracts or agreements that are reasonably similar in nature. The practical expedient allows reporting entities to potentially avoid the costs and complexities associated with ~~(a) identifying, embedded leases, and (b) separating, and allocating consideration to embedded lease components of contracts or agreements that have a primary purpose that is primarily attributable to nonlease component(s), such as services.~~

PRACTICAL EXPEDIENT AMENDMENT TO SFFAS 54

4. Immediately following paragraph 77 a new sub-topic under the “Contracts or Agreements with Multiple Components” topic and paragraphs 77A-77E are added to SFFAS 54 as follows:

Practical Expedient

77A. As a practical expedient, for contracts or agreements that meet **both** of the following conditions, reporting entity lessees and lessors may apply the practical expedient described under paragraphs 77B-77E to those contracts or agreements.

- a. The contracts or agreements contain nonlease component(s) and may contain lease component(s).

- b. The purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components, based on management's assessment of the nature of the contracts or agreements and professional judgment. The primary purpose attribute should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment.

77B. For contracts or agreements meeting the paragraph 77A conditions above, a reporting entity may elect to account for such contracts or agreements, including the lease component(s), as nonlease contracts or agreements in their entirety.

77C. For any ~~contract or agreement modifications~~ ~~contracts or agreements to which the practical expedient was applied is subsequently modified and, as a result, that result in the contracts or agreements no longer meeting~~ the conditions set forth in paragraph 77A, paragraphs 73-74 should be prospectively applied based on the remaining term(s) of the lease component(s) and associated payments as of the effective date of the modification. ~~Lease component modifications should be accounted for in accordance with paragraphs 84-86.~~ However, if such modifications are accounted for as a separate or new lease under paragraph 84 and, as a result, the remainder of the contract or agreement continues to meet the conditions of paragraph 77A, the reporting entity may elect to ~~continue to~~ apply the practical expedient under paragraph 77B to the remainder of the contract or agreement.

77D. A reporting entity may apply the provisions of paragraphs 77A-77C to groups of contracts or agreements that are reasonably similar in nature.

77E. A reporting entity that elects the practical expedient provided under paragraphs 77A-77D should disclose its election. ~~A reporting entity may also, at its discretion, disclose any groupings of contracts known to contain lease component(s), and the related class (or classes) of underlying assets, to which the practical expedient was applied.~~

CONFORMING AMENDMENTS TO SFFAS 54 AND RECISSION OF SFFAS 62

5. Paragraphs 73-74 of SFFAS 54 are amended as follows:

73. If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and a nonlease component (such as maintenance services for the building), the federal entity should account for the lease and nonlease components as separate contracts or agreements, unless the contract or agreement meets the exception in paragraph 76 or the practical expedient under paragraphs 77A-77E is applied.

74. If a lease involves multiple underlying assets and the assets have different terms, the lessor and lessee should account for each underlying asset as a separate lease component. The provisions of this paragraph should be applied unless the contract or agreement meets the exception in paragraph 76 or the practical expedient under paragraphs 77A-77E is applied

6. Paragraph 76 of SFFAS 54 is amended as follows:

76. If a contract or agreement does not include prices for individual components or if any of those prices appear to be unreasonable as provided in paragraph 75, lessors and lessees should use professional judgement to determine their best estimate for allocating the contract or agreement price to those components, maximizing the use of observable information. If it is not practicable to determine the best estimate for price allocation for some or all components in a contract or agreement, a federal entity should account for those components as a single lease unit (unless the practical expedient under paragraphs 77A-77E is applied).
7. Paragraph 79 of SFFAS 54 is amended as follows:
79. If multiple contracts or agreements are determined to be part of the same lease contract or agreement, that contract or agreement should be evaluated in accordance with the guidance for contracts or agreements with multiple components in paragraphs 72-77E.
8. Due to the expiration of the transitional accommodation period and the practical expedient amendments above, SFFAS 62 and its transitional amendments under paragraphs 96A-96E of SFFAS 54 are rescinded.

EFFECTIVE DATE

9. The requirements of this Statement are effective for reporting periods beginning after September 30, 2026. Early implementation is permitted.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this proposed Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this proposed Statement—not the material in this appendix—would govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. The Federal Accounting Standards Advisory Board (FASAB or “the Board) issued SFFAS 54, Leases, in April 2018 with an effective date for reporting periods beginning September 30, 2023. SFFAS 54 requires entities to identify and evaluate leases, which improves accountability for their resources and obligations. As noted in paragraph 74 of Statement of Federal Financial Accounting Concepts (SFFAC) 1, Objectives of Federal Financial Reporting, “accounting can and should contribute to achieving and demonstrating several kinds of accountability, such as
- a. accounting for financial resources;
 - b. accountability for faithful compliance or adherence to legal requirements and administrative policies;
 - c. accountability for efficiency and economy in operations; and
 - d. accountability for the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.”
- A2. Following the issuance of SFFAS 54, the Board commenced a post-issuance project on its technical agenda to identify implementation challenges and develop guidance. As part of these efforts, the Board identified challenges in the area of “embedded leases” based on the research presented by technical staff and additional information provided during a clarification discussion held in April 2023.
- A3. In the interest of reducing implementation costs associated with “embedded leases,” the Board issued SFFAS 62, Transitional Amendment to SFFAS 54, in November 2023. SFFAS 62 provided a transitional accommodation for certain contracts or agreements containing “embedded leases” and allows for prospective application of paragraph 73 to

eligible contracts or agreements following the end of the transitional accommodation period.¹

- A4. Under SFFAS 62, the Board decided to provide transitional relief based on contract- or agreement-level primary purpose assessments. The Board believed that this would allow reporting entities to more manageably implement SFFAS 54 requirements for “embedded leases” while avoiding potential accountability implications associated with permanent contract- or agreement-level unit of account measurement approach alternatives. The Board determined that additional research and due process would be necessary prior to considering additional or permanent relief.²
- A5. Following issuance of SFFAS 62, the Board continued research and monitoring activities during fiscal years 2024 and 2025. In its review of fiscal year 2024 reporting, the Board found that reporting entities with significant leases almost universally elected to apply the transitional accommodation for the maximum period of three years. These findings demonstrated that the transitional amendments facilitated adoption of SFFAS 54 and met the initial objectives of SFFAS 62.³
- A6. The Board’s research and monitoring also identified concerns regarding high expected ongoing implementation costs of prospectively applying SFFAS 54 requirements to contracts or agreements that may contain lease components. The Board further found that applying these requirements to such contracts or agreements is unlikely to substantially improve the quality of financial reporting of leases. These findings were based on the Board’s post-implementation monitoring and reviews of leases reporting and disclosures. The Board did not identify audit findings or practitioner concerns regarding misapplication of the transitional accommodation to multiple component contracts with a primary purpose related to leases.
- A7. In response to these concerns and considerations, the Board believes that providing permanent relief through a practical expedient will considerably reduce the expected ongoing costs of applying SFFAS 54 requirements without substantially diminishing the quality of lease reporting.
- A8. Furthermore, the Board does not expect the practical expedient will have a material effect on the lease asset or lease liability balances of the federal government, the timing and pattern of expense/revenue recognition for eligible contracts or agreements, or the quality of financial reporting on leases and disclosures.
- A9. Similar to the transitional accommodation originally provided under SFFAS 62, this Statement continues to allow reporting entities to assess the primary purpose of contracts or agreements based on their nature and professional judgement, provided that such attributions do not appear to be unreasonable.
- A10. The Board also discussed the potential need for guidance on contracts or agreements that are subsequently modified and, as a result, no longer meet the practical expedient conditions. The Board expects this would be rare due to inherent constraints that would generally prevent modifications from materially affecting the primary purpose of the

¹SFFAS 62, par. 5 and A7.

²ibid., par. A18-A21, and A25.

³Feb. 2025 meeting materials, topic C.1, p. 18.

original contracts or agreements. The Board agreed, however, that providing guidance (proposed par. 77C) would be critical to enabling reporting entities to apply the standards in such a scenario—however rare.

DRAFT

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFRR	General Purpose Federal Financial Report
QFR	Question for Respondents
<u>SMC</u>	<u>Specific Matters for Comment</u>
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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Leases Project Plan

	<u>Deferral</u> SFFAS 58 ✓	<u>Implementation Guidance</u> TR 20 ✓ TR 22 ✓	<u>Omnibus</u> SFFAS 60 ✓ SFFAS 61 ✓	<u>Leases-Related Intragov. RWAs</u> TB 2023-1 ✓	<u>Transitional Accommodation</u> SFFAS 62 ✓	<u>Practical Expedient</u> SFFAS XX
FY 2020	Draft Exposure Period Finalize / Approve Issuance SFFAS 58 ISSUED	Draft	Research Draft			
FY 2021		Exposure Period Finalize / Approve Research	Exposure Period Finalize / Approve Research	Research Draft		
FY 2022		Issuance TR 20 ISSUED Research	Issuance SFFAS 60 ISSUED Research Draft Exposure Period Finalize	Research Draft Exposure Period Finalize		
FY 2023		Research Draft Exposure Period Finalize / Approve	Finalize / Approve Issuance SFFAS 61 ISSUED	Finalize / Approve Issuance TB 2023-1 ISSUED	Research Draft Exposure Period Finalize / Approve	
FY 2024		Issuance TR 22 ISSUED			Issuance SFFAS 62 ISSUED	
FY 2025						Research Draft
FY 2026 Q1						Draft
FY 2026 Q2						Draft
FY 2026 Q3						Draft Exposure Period
FY 2026 Q4						Exposure Period Finalize
FY 2027					Proposed rescission effective date: 10/1/26	Finalize / Approve Issue 11/23/25 Planned effective date: 10/1/26

Last updated: April 2026.