THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Memorandum

Leases

August 11, 2026

To: Members of the Board
From: Ricky A. Perry, Jr., Assistant Director
Thru: Monica R. Valentine, Executive Director
Subject: Analysis of comments - embedded leases practical expedient (**Topic A**)

OBJECTIVES

The objectives of this two-part session are:

- Part 1: Discuss comment letters, issues raised, and proposed changes.
- Part 2: Discuss remaining issues and finalizing changes.

REQUEST FOR FEEDBACK BY AUGUST 17

Prior to the April meeting, please review all comment letters (reference material, item 2), along with the attached staff analysis and recommendations (attachments 1-3). Please respond to the ensuing questions by August 17th.

NEXT STEPS

Pending Board feedback, staff will implement any finalizing changes following each session 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. QFR/SMC responses, with staff analysis and notes
3. Updated proposal, marked since exposure draft (ED) with staff-recommended edits

REFERENCE MATERIALS

1. Exposure Draft: *Embedded Leases Practical Expedient*

2. Compendium of comment letters

FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Staff Analysis

Leases

August 11, 2026
Attachment 1

INTRODUCTION

At the April 2026 meeting, the Board discussed a pre-ballot exposure draft (ED) proposing a practical expedient for embedded leases. Members approved the proposal soon after the meeting. The proposal was exposed for public comment on May 1, 2026, with comments due July 30, 2026.

FASAB received 23 responses from the following sources:

	FEDERAL	NON-FEDERAL	TOTAL
Associations		3	**3**
Auditors/Accounting Firms		4	**4**
Preparers and financial managers	15		**15**
Individuals		1	**1**
Total	**15**	**8**	**23**

Comment letters are posted at https://fasab.gov/embedded-leases-practical-expedient/ (reference material, item 2). Respondents are identified in the order their letters were received.

SUMMARY OF RECOMMENDATIONS AND ANALYSES

Most respondents (22 of 23) generally supported the proposed Statement and related practical expedient. These respondents cited several reasons for their support, including agreement with the Board’s expressed expectation regarding reductions in costs without substantially diminishing the quality of leases reporting.

Certain respondents provided feedback and suggested revisions resulting in staff-recommended technical improvements to the proposal and/or discussions in the Basis for Conclusions to clarify certain matters raised, as discussed in the analyses below.

Overall, staff is not recommending major changes to what was proposed in the ED.

ANALYSIS

Analysis of Responses to Question for Respondents (QFR) #1:

> ***QFR1.*** *Do you agree or disagree with the proposed practical expedient reflected in paragraph 3? The practical expedient would be inserted as a new sub-topic, paragraphs 77A-77F, under the "Contracts or Agreements with Multiple Components" topic of SFFAS 54, Leases. Please provide reasons for your views, including any suggested revisions.*

Twenty-two of 23 respondents expressed overall agreement with the proposed practical expedient in response to this QFR. Several respondents explicitly noted that the proposal provides a reasonable, cost-effective approach; appropriate flexibilities to avoid additional costs; and scalability for reporting entities with portfolios of contracts and agreements diverse in nature and size.

Eight respondents—including seven expressing general agreement (#5, 8, 11, 14, 15, 18, 20) and one expressing general disagreement (#23)—provided comments suggesting changes or clarifications in four key areas (**items A-D** below).

Item A: Grouping guidance for proposed paragraph 77D.

Three respondents (#5, 11, 14) requested clarification and/or guidance on how to group contracts or agreements that are reasonably similar in nature under proposed paragraph 77D. These respondents cited a desire for consistency and comparability in application across reporting entities.

Staff does not recommend any changes to paragraph 77D based on the following:

- Reporting entities widely adopted the transitional accommodation and already have experience with applying this requirement. The requirement is not changing under this proposal. Staff has not received technical inquiries, identified management or independent auditor internal control findings during archival reviews of reporting, or uncovered other information during research and monitoring activities indicating that there have been practice issues when applying the analogous requirement under paragraph 96D in fiscal year (FY) 2024 or FY 2025.

- Providing guidance and/or examples for grouping contracts and agreements, may be contrary to the objectives of this Statement, including: (a) providing flexibility; (b) allowing management to apply professional judgment based on direct knowledge and understanding of their respective entities, operations, and contracts; and (c) reducing the cost of applying the requirements of SFFAS 54.

- The Board determined based on its post-implementation research and monitoring activities that embedded leases are expected to be immaterial.

Staff recommends discussion of these considerations in the Basis for Conclusions under the Summary of Outreach and Responses section (see attachment 3, par. A16 and A19).

Staff recommendation #1: Staff does not recommend adding additional requirements, guidance, or examples about how reporting entities should group contracts and agreements that are reasonably similar in nature under paragraph 77D. Staff recommends discussing this key decision in the Basis for Conclusions.

Question for the Board:

1. Do members agree with staff recommendation #1, the associated analysis, and proposed paragraphs A16 and A19 under attachment 3? Please provide feedback.

Item B: Guidance on primary purpose attributions under proposed paragraph 77A.b.

One respondent (#18) recommended providing additional examples or guidance to help entities consistently assess whether a contract's primary purpose is attributable to nonlease components.

Staff does not recommend any changes or additional guidance and examples to explain proposed paragraph 77A.b based on the following:

- Reporting entities widely adopted the transitional accommodation and already have experience with applying this requirement. The requirement is not changing under this proposal. Staff has not received technical inquiries, identified management or independent auditor internal control findings during archival reviews of reporting, or uncovered other information during research and monitoring activities indicating that there have been practice issues when applying the analogous requirement under paragraph 96A.b in FY 2024 or FY 2025.

- Providing guidance and/or examples for attributing the primary purpose of a contract or agreement may be contrary to the objectives of this Statement, including: (a) allowing practitioners to apply professional judgment based on their direct knowledge and understanding of their respective entities, operations, and contracts; and (b) reducing the cost of applying the requirements of SFFAS 54.

- The Board determined based on its extensive research and monitoring activities that embedded leases are expected to be immaterial.

- Reporting entities with material leases frequently encounter contracts or agreements with multiple components under paragraph 73 and have experience with identifying and separating lease and nonlease components and allocating consideration to each when applying extant standards and guidance to contracts or agreement ineligible for the transitional accommodation.

Staff recommends discussion of these considerations in the Basis for Conclusions under the Summary of Outreach and Responses section (see attachment 3, par. A17 and A19).

Staff recommendation #2: Staff does not recommend adding additional requirements, guidance, or examples about how reporting entities should attribute the primary purpose based on the nature of the contracts or agreements and professional judgement under paragraph 77A.b. Staff recommends discussing this key decision in the Basis for Conclusions.

Question for the Board:

2. Do members agree with staff recommendation #2, the associated analysis, and proposed paragraphs A17 and A19 under attachment 3? Please provide feedback.

Item C: Guidance on transition, changes in accounting principles.

One respondent (#8) suggested addressing whether reporting entities that did not originally use the transitional accommodation may apply the practical expedient prospectively. Relatedly, the respondent also suggested, in its response to QFR #3, clarifying the applicability of paragraphs 96A-96E for reporting entities that have not adopted SFFAS 54 and may later need to restate financial statements for reporting periods prior to the effective date.

Staff held a follow-up call with the respondent to discuss the applicable guidance on changes in accounting principles and a potential recommendation for including a discussion in the Basis for Conclusions. The respondent generally agreed that Basis for Conclusions discussion on these matters could be helpful.

- Under the scenario raised by the respondent in its response to QFR #1, SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, paragraph 13, would apply. Paragraph 13 applies to all changes in accounting principles that would have resulted in a change to prior period financial statements unless otherwise specified in the transition instructions section of a FASAB standard. Paragraph 13 requires the cumulative effect of the change be reported as a “change in accounting principle” adjustments to the beginning balance of the cumulative results of operations in the statement of changes in net position. Prior period financial statements would be presented as previously reported.

Discussion of this matter in the proposed standards would duplicate SFFAS 21 guidance and create unnecessary interdependences requiring maintenance across pronouncements should SFFAS 21 be amended in the future.

- Under the scenario raised by the respondent in its response to QFR #3, SFFAS 21, paragraph 13, and SFFAS 62, paragraphs 96A-96E would apply. Specifically, the rescission of paragraphs 96A-96E under this proposal would not be retroactive. Reporting entities that might restate their FY 2026 financial statements would apply the version of SFFAS 54 in effect as of that reporting period.

Staff recommendation #3: Staff does not recommend detailed application guidance for these unusual scenarios. However, staff recommends including a brief non-authoritative Basis for Conclusions paragraph to address the matter (see attachment 3, par. A20).

Question for the Board:

3. Do members agree with staff recommendation #3, the associated analysis, and proposed paragraph A20 under attachment 3? Please provide feedback.

Item D: Requests for broad, general exclusions.

A few respondents (#15, 20, 23) suggested providing broad, general exclusions of embedded leases from the requirements of SFFAS 54. These respondents cited the expected costs of applying the requirements of this proposal and suggested that eliminating requirements may further reduce costs. Staff does not recommend broad, general exclusions of embedded leases based on the following factors:

- Proposed paragraphs 77A-77F do not require agencies to reperform eligibility determinations, groupings, or reviews of contracts and agreements already determined eligible for the transitional accommodation under SFFAS 62.

- The proposal allows agencies to account for eligible contracts and agreements as nonlease in their entirety. A broad, general exclusion or exemption from requirements, without defining eligibility conditions or accounting treatment, would likely create practice issues and increase costs, which is contrary to the intent of this proposal.

- Such action would not affect inherent risk or reduce the nature, timing, and extent of audit procedures. Rather, it would introduce ambiguity and increase the risk of judgment-based conflicts between auditors and auditees regarding eligibility and accounting treatment, thereby increasing costs.

Staff recommendation #4: Staff recommends discussing the Board's basis for not providing a broad, general exclusion or exemption for embedded leases in the Basis for Conclusions.

Question for the Board:

4. Do members agree with staff recommendation #4, the associated analysis, and proposed paragraphs A18 and A19 under attachment 3? Please provide feedback.

Analysis of Responses to Question for Respondents (QFR) #2:

QFR2. *Do you agree or disagree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6? 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.*

All 23 respondents generally agreed with the proposed conforming amendments. Respondents noted that the proposed conforming amendments enhance clarity (**items E-F** below).

Item E: Paragraph 74 conforming amendment.

One respondent (#8) noted that it did not view the proposed amendment to paragraph 74 as necessary. The respondent duly observed that paragraph 74 is crafted to address multiple-component contracts with multiple lease components. Accordingly, paragraph 74 seems to inherently address contracts or agreements that would be ineligible for the proposed accommodation. Unlike paragraph 73, which addresses "contracts or agreements that contain both a lease and a nonlease component," paragraph 74 addresses "lease[s] involving multiple underlying assets [with different lease terms]."

Staff generally agrees that the proposed amendment is not necessary, but for different reasons. While a contract or agreement eligible for the proposed accommodation could *potentially* meet paragraph 74 conditions, staff believes that a conforming amendment is not necessary because paragraph 73 is the principal requirement. Paragraph 74 is a supplementary requirement when certain conditions are met.

In follow-up discussions with the respondent, staff noted that while the conforming amendment may not be necessary, such an amendment is not inaccurate because paragraph 74 would also not apply if the transitional accommodation is applied. Accordingly, the conforming amendment essentially duplicates the principal requirement. Further, other respondents' feedback appeared to indicate consistent understanding of the intent of the conforming amendment.

Based on these considerations, staff does not believe the removal or inclusion of the conforming amendment will have a meaningful effect on the consistency in application of the proposed practical expedient.

Staff recommendation #5: Staff recommends a Board discussion regarding this item, given the options available. Staff's tentative preference is to keep the conforming amendment as proposed. If the Board agrees that this decision will not meaningfully affect practice, staff does not believe this matter warrants discussion in the Basis for Conclusions.

Question for the Board:

5. Do you prefer to include or exclude the conforming amendment to paragraph 74? Please explain your rationale, including any aspects of the related respondent comments and staff analysis that affect your preference.

Item F: Expanding paragraph 76 exception to single lease unit or nonlease unit.

Par. 76 [as proposed]*: 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-77F is applied).*

Two respondents (#15, 20) suggested further changes to SFFAS 54, paragraph 76. Specifically, the respondents noted that the paragraph could be revised to allow reporting entities meeting the paragraph 76 conditions to account for the total cost as a single non-lease unit. These respondents suggested that such changes could further reduce cost when allocation is impracticable.

Staff does not recommend further changes to paragraph 76 based on the following considerations:

- Contracts eligible under proposed paragraph 77A that would have similar challenges for determining how to allocate consideration for some or all components would be accounted for as a single nonlease unit under the proposal. Ineligible contracts, however, would presumably have a primary purpose attributable to lease components. Accordingly, the most appropriate accounting treatment for ineligible contracts or agreements would be to account for the components as a single lease unit in accordance with paragraph 76, as proposed.

- It is also rare in practice to meet the conditions for the paragraph 76 exception. Contracts or agreements often include readily available, observable stand-alone prices (par. 75). If a contract does not include stand-alone prices or the stated prices appear to be unreasonable, practitioners are required to determine a best estimate when possible, maximizing the use of observable information and applying professional judgment (par. 76). As a result, the paragraph 76 exception is expected to apply only in unusual circumstances when a best estimate is not practicable to determine.

Question for the Board:

6. Do members agree with staff's analysis of **item F**? Please provide feedback.

Analysis of Responses to Question for Respondents (QFR) #3:

QFR3. *Do you 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 7-8? SFFAS 62 provided a transitional accommodation for embedded leases through September 30, 2026. The proposed practical expedient would extend this relief, becoming effective for reporting periods beginning after September 30, 2026. Please provide reasons for your views.*

Item G.1: Rescission of paragraphs 96A-96E.

Twenty-one of 23 respondents generally agreed with the proposed rescission of paragraphs 96A-96E. Respondents noted that the rescission would enhance clarity and eliminate irrelevant transition guidance while maintaining continuity based on the accompanying practical expedient amendments. Staff met with one respondent (#8) regarding applicable transition guidance (discussed under QFR 1, **item C**, above).

Item G.2: Sixteen of 23 respondents agreed with the proposed effective date. Respondents noted that the proposed effective date would maintain the original transitional relief without requiring reperformance of tasks already completed during the transitional relief period.

Seven of 23 respondents (#5, 7, 11, 15, 19, 20, 23) disagreed with the proposed effective date. These respondents consistently cited concerns that they would be required to reperform eligibility determinations and grouping procedures already completed during the transitional accommodation period. These respondents did not appear to fully understand the extent to which the standard is designed to provide for seamless transition. This matter is addressed under proposed paragraph 77F and Basis for Conclusions paragraph A11.

Staff does not expect application of paragraphs 77A-77F to require reperformance of contract reviews, contract groupings, or related eligibility assessments in practice. Paragraph 77F explicitly provides that contracts or agreements to which the transitional accommodation in SFFAS 62 was applied should continue to be accounted for as nonlease contracts in their entirety. Staff believes this guidance is sufficiently clear; however, because several respondents expressed concern that implementation could require reperformance of prior assessments, additional discussion in the Basis for Conclusions could clarify the Board's intent, address those concerns, and encourage consistent application of paragraph 77F.

Staff recommendation #6: Staff recommends additional discussion in the Basis for Conclusions to clarify the Board's intent, address concerns regarding the effective date and transition requirements, and encourage consistent application of paragraph 77F (see attachment 3, proposed par. A11 and A19).

Item H: Effective date wording.

One respondent (#7) partially disagreed with the proposed effective date. The respondent recommended an amendment to address a three-month gap for calendar-year-end reporting entities. Specifically, the respondent noted that calendar-year-end entities would experience a three-month gap without a transitional accommodation period or practical expedient—October 1, 2026, through December 31, 2026. To ensure seamless transition for these entities, the respondent recommended revising the effective date to "reporting periods ending ~~beginning~~ after September 30, 2026."

Staff concurs with the comment and proposed amendment by the respondent. Staff also explored the possibility of amending paragraph 96B; however, such amendments would introduce unnecessary complexity. For example, any amendment to paragraph 96B would need to be retroactively applied by calendar-year-end entities. Unlike the proposed change suggested by the respondent, any amendments to paragraph 96B would likely impede the Board's efforts to improve clarity by rescinding paragraphs 96A-96E without any retroactive effects.

Although the effective date phrasing proposed by the respondent is not comparable with that of other pronouncements, neither is the nature of this proposal. Specifically, the practical expedient is intended to facilitate a continuation in accounting treatment rather than a create a new accounting treatment.

Staff recommendation #7: Staff recommends revising the effective date wording to ensure seamless transition (see attachment 3, par. 8).

Questions for the Board:

7. Do members agree with staff analysis under **item G**, recommendation #6, and proposed paragraphs A11 and A19 under attachment 3? Please provide feedback.

8. Do members agree with staff analysis under **item H**, recommendation #7, the proposed change to paragraph 8, and proposed paragraph A15.a under attachment 3? Please provide comments.

Analysis of Responses to Specific Matter for Comment (SMC) #1:

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.*

Of the 23 respondents, 20 provided feedback on SMC 1. Nineteen of these 20 respondents generally agreed with proposed paragraph 77C. Of these 19, three expressed agreement with comments while suggesting guidance on modifications affecting primary purpose assessments (#5, 11, 18; **item I** below), and one respondent initially expressed partial disagreement, suggesting removal of the second sentence of paragraph 77C (#8; **item J** below). One respondent (#23) disagreed with the proposed paragraph, citing concerns regarding the administrative burden for monitoring for rare modifications over its large portfolio of contracts.

None of the 23 respondents cited known examples of modifications changing the primary purpose of a contract or agreement from nonlease components to lease components. These respondents confirmed that modifications do not typically change the fundamental purpose of the contract or agreement based on inherent constraints in federal contracting processes and a primary purpose defined at inception.

Item I: Guidance on modifications affecting primary purpose assessments.

The three respondents suggesting guidance on primary purpose assessments generally agreed with proposed paragraph 77C but requested certain clarifications.

- Three respondents (#5, 11, 18) recommended clarifying that reassessments should only be required when substantive modifications occur. One of these respondents requested examples. Staff believes that proposed paragraph 77C addresses the overall concerns expressed by these three respondents, because the guidance is limited to modifications that result in the primary purpose attribution changing from nonlease component to lease component. Further, as noted above, paragraph 77C is expected to be exceptionally rare in practice. None of the 23 respondents cited known examples. Accordingly, the provisions of paragraph 77C, while helpful for highly unusual situations, are not expected to necessitate costly systems and controls for monitoring modifications, given the low inherent risk associated with contract modifications affecting primary purpose attributions.

Item J: Reference to paragraph 84 under proposed paragraph 77C.

One respondent (#18) suggested removing the second sentence of paragraph 84. The respondent noted that lease modification guidance in paragraph 84 would not be applicable because the original agreement would have nonlease under paragraph 77A. Staff held follow-up discussions with the respondent on this comment and agreed that paragraph 84 would not be applicable. That said, consistent with the views of other respondents, staff and the respondent agreed that the overall requirement in paragraph 77C is suitably designed and that the reference to paragraph 84 is not necessary. Reference to paragraph 84, while helpful for analogizing the proposal to extant modifications guidance, is not necessary in the final pronouncement. Rather, paragraph 77C can provide the level-A guidance itself.

Staff recommendation #7: Staff recommends removing the reference to paragraph 84 by striking “under paragraph 84” in proposed paragraph 77C (see attachment 3 tracked change).

Question for the Board:

9. Do members agree with staff’s analysis of **items I-J**, recommendation #7, the proposed changes to paragraphs 77C and A15.b under attachment 3? Please provide feedback.

Resp. No.	Organization
1	Jed Stancato
2	Federal Trade Commission (FTC)
3	Social Security Administration (SSA)
4	AGA
5	Department of Transportation (DOT)
6	Department of the Treasury (Treasury)
7	KPMG
8	EY
9	Department of Veterans Affairs (VA)
10	General Services Administration (GSA)
11	Department of Homeland Security (DHS)
12	Department of the Interior (DOI)
13	GWSCPA, Federal Issues and Standards Committee (GWSCPA - FISC)
14	Kearney and Company (Kearney)
15	Sikich
16	Environmental Protection Agency (EPA)
17	Department of Justice (DOJ)
18	Virginia Society of CPAs (VSCPA)
19	National Aeronautics and Space Administration (NASA)
20	Department of State (DOS)
21	Department of Commerce (DOC)
22	Department of Health and Human Services (HHS)
23	Department of War (DOW)

QFR 1: Do you agree or disagree with the proposed practical expedient reflected in paragraph 3? The practical expedient would be inserted as a new sub-topic, paragraphs 77A-77F, under the "Contracts or Agreements with Multiple Components" topic of SFFAS 54, *Leases*. Please provide reasons for your views, including any suggested revisions.			
Ref. No.	**Agreement type**	**Response**	**Staff Notes**
1	Agree	I agree with the proposed expedient reflected in paragraph 3. Inclusion of the paragraphs will provide guidance to agencies who have non-lease components as part of the contracts. It takes the exact wording of SFFAS 62 and makes it permanent. I additionally support the addition of paragraphs 77C-77F as it provides guidance in the instance that a contract or agreement no longer meets the criteria and does not require retroactive treatment and instead calls for a prospective application. I do not believe edits to the language would be considered necessary	N/A
2	Agree	I agree. This reduces the burden of keeping track of these specific types of combined agreements while still maintaining the purpose of distinguishing material leases. An agreement where the primary purpose is the non-lease component, would arguably make the lease component immaterial. Thus, it is better to combine with the main purpose than do the extra work to separate.	N/A
3	Agree	SSA agrees. The practical expedient allows for the activity to be treated in an appropriate manner based on the overall primary purpose of the contract/ agreement.	N/A
4	Agree	We agree. In general, our group is in favor of practical expedients as a means of balancing cost and benefit considerations in standard setting. In this case, we are not aware of any issues in practice with the transitional guidance, so it makes sense to make it permanent.	N/A
5	Agree, w/ comments	We agree with the proposed practical expedient in paragraph 3. The expedient is a practical solution for contracts that contain embedded lease elements but are primarily nonlease in nature. Requiring entities to identify and separate all lease and nonlease components in arrangements is time-consuming and does not provide a cost-benefit or added value to financial statement users. Making this relief permanent should reduce implementation burden over time and preserve lease accounting for arrangements whose primary purpose is a lease.¶ We recommend clarifying what grouping means to promote consistent application across entities. We also recommend clarifying that entities should document the basis for applying the expedient to groups of contracts in 77D.	See staff analysis under attachment 1, **QFR 1 item A**.
6	Agree	The Department of the Treasury agrees with the proposed practical expedient reflected in paragraph 3. The proposed amendments would preserve practical relief currently provided in paragraphs 96A-96E of SFFAS 54 and SFFAS 62, which are proposed to be rescinded, by incorporating the guidance into the body of SFFAS 54 as paragraphs 77A-77F.¶ Treasury supports this approach because it would continue to reduce the administrative burden associated with identifying and accounting for embedded leases in contracts or agreements with multiple components. Once an entity determines that the primary purpose of a contract or agreement is nonlease, the practical expedient provides a reasonable and cost-effective approach that is expected to improve consistency in application without materially reducing the usefulness of the financial statements.¶ Treasury has no additional suggested revisions.	N/A
7	Agree	We support the proposed practical expedient to make permanent the current guidance on embedded leases that is provided through the transitional accommodations in SFFAS 62. We believe the proposed ED will not result in a change in practice as it does not create additional reporting requirements beyond what preparers are already following under existing standards.	N/A
8	Agree, w/ comments	We agree with the proposed practical expedient and offer the following suggestions for the Board's consideration.¶ We believe entities that did not originally use the transitional accommodation may need additional guidance on applying the practical expedient. Paragraph 77F could be expanded clarify whether those entities can apply the practical expedient and, if so, whether the change should be applied prospectively.	See staff analysis under attachment 1, **QFR 3 item C**.
9	Agree	Agree.	N/A
10	Agree	Yes, GSA agrees. We have no revisions.	N/A
11	Agree, w/ comments	DHS agrees with the proposed practical expedient reflected in paragraph 3. This permanent extension offers flexibility and helps avoid the additional costs and administrative burden of having to create separate agreements for lease and nonlease components. DHS recommends clarifying what grouping means to promote consistent application across entities. DHS also recommends clarifying that entities should document the basis for applying the expedient to groups of contracts in 77D.	See staff analysis under attachment 1, **QFR 1 item A**.

QFR 1: Do you agree or disagree with the proposed practical expedient reflected in paragraph 3? The practical expedient would be inserted as a new sub-topic, paragraphs 77A-77F, under the “Contracts or Agreements with Multiple Components” topic of SFFAS 54, *Leases*. Please provide reasons for your views, including any suggested revisions.			
Ref. No.	**Agreement type**	**Response**	**Staff Notes**
12	Agree	DOI agrees with the proposed practical expedient.¶ We support embedding the transitional relief of SFFAS 62 permanently into SFFAS 54 because it meaningfully reduces the cost and administrative burden associated with identifying embedded leases without diminishing reporting quality. This aligns with operational realities experienced by DOI bureaus.¶ We concur that allowing election at both the contract level and across reasonably similar groups increases administrative efficiency and supports scalability for bureaus with large contract portfolios.	N/A
13	Agree	The FISC generally agrees with the proposed practical expedient reflected in paragraph 3 for the reasons stated in the ED.	N/A
14	Agree, w/ comments	Overall, we agree with the proposed practical expedient reflected in those paragraphs. The Board’s intent is clear: provide permanent relief similar to the temporary relief under SFFAS 62 for contracts whose primary purpose is the non-lease component, even if they contain lease components. This responds directly to documented practice challenges, cost burdens, and low incremental reporting benefits.¶ Paragraph 77D, if contracts are reasonably similar in nature, but details make some contracts primarily a lease and others a non-lease, can guidance be added to indicate that although leases and non-leases may be reasonably similar in nature, they should first be analyzed to determine if they are primarily a lease or non-lease? Are there any guidelines regarding what makes contracts reasonably similar in nature (e.g., size, scope, location, outcomes)?	See staff analysis under attachment 1, **QFR 1 item A**.
15	Agree, w/ comments	Sikich generally agrees with the Board’s proposal to provide permanent relief through a practical expedient for embedded leases under SFFAS 54. However, we believe the assertion that the practical expedient would “considerably reduce” the ongoing costs of applying SFFAS 54 may be overstated. Given the complexity of the proposed requirements, we are also not convinced that reporting embedded leases would provide information that is beneficial to financial statement users or would significantly affect their decisions.¶ The draft Exposure Draft introduces a permanent practical expedient that could reduce the number of reportable leases by allowing agencies not to report embedded leases included in primary service contracts. Even so, determining and supporting management’s judgment about the “primary” purpose of a contract remains subjective and costly.¶ Many federal agencies have complex contracts that are procured across the organization and may not be captured in a centralized system. Gathering and maintaining contract data at a level of detail sufficient to identify contracts that may include both lease and non-lease components is costly and likely would not be necessary absent the accounting standard.¶ To implement SFFAS 54 effectively, including the proposed practical expedient, agencies would need to: Identify the population of contracts containing both lease and non-lease components; Develop a methodology to assess each contract’s primary purpose; Review and test results against that methodology; Document final accounting judgments; and Report on the results.¶ This process would require skilled resources and significant time. Although the practical expedient permits agencies to group similar contracts, which may reduce some review costs over time, agencies must first develop and document a sound grouping methodology and the related assumptions. As a result, any cost benefit may be delayed.¶ These costs would be incurred regardless of the materiality of the resulting lease population, with much of the effort focused on supporting the exclusion of contracts. Accordingly, Sikich recommends that the Board consider amending SFFAS 54 to provide broader permanent relief through a practical expedient that allows agencies to exclude embedded leases in general.	See staff analysis under attachment 1, **QFR 1 item D**.
16	Agree	Agree. The proposed practical expedient would reduce administrative burden and simplify accounting for contracts or agreements where the primary purpose is attributable to nonlease components, such as service agreements. The proposal provides a practical approach for applying SFFAS 54 to contracts or agreements with multiple components while maintaining transparency through the disclosure requirements.¶ Criteria in 77A would apply to contracts that are primarily service based, with lease components that are not material. Material leases would still be accounted for separately, so the expedient should mainly reduce time spent identifying and tracking smaller leases. Also, the disclosure requirement in 77E helps preserve transparency and provides a clear audit trail.	N/A
17	Agree	Agree. The practical expedient provides a reasonable and cost-effective approach for contracts or agreements whose primary purpose is a non-lease component. It would reduce the administrative burden associated with identifying and analyzing embedded lease components when the lease component is not the primary purpose of the arrangement. The proposal should also promote more consistent application across federal entities without diminishing the usefulness of financial reporting.	N/A
18	Agree, w/ comments	We agree with the proposed practical expedient. For contracts whose primary purpose is attributable to nonlease components, such as services, requiring entities to identify and separately account for incidental embedded lease components may create significant cost without a corresponding reporting benefit. We also support allowing the expedient to be applied to groups of reasonably similar contracts.¶ However, we recommend that FASAB provide additional examples or implementation guidance to help entities consistently assess whether a contract’s primary purpose is attributable to nonlease components.	See staff analysis under attachment 1, **QFR 1 item B**.

QFR 1: Do you agree or disagree with the proposed practical expedient reflected in paragraph 3? The practical expedient would be inserted as a new sub-topic, paragraphs 77A-77F, under the "Contracts or Agreements with Multiple Components" topic of SFFAS 54, *Leases*. Please provide reasons for your views, including any suggested revisions.

Ref. No.	Agreement type	Response	Staff Notes
19	Agree	Agree	N/A
20	Agree, w/ comments	State appreciates the opportunity to review and comment on the proposed changes to SFFAS 54 and SFFAS 62. The practical expedient in paragraph 3 will provide some relief in our final stage of implementation of SFFAS 54, regarding embedded leases. We agree with making the practical expedient permanent and with the guidance allowing agencies to "group contracts or agreements that are reasonably similar in nature," which will improve efficiency in contract reviews.¶ However, we ask the Board to consider whether requiring agencies to further review embedded lease contracts is beneficial to financial statement users, given the likelihood that lease components are immaterial for many agencies and the associated costs. While the proposed practical expedient offers some relief, it does not eliminate the burden. Agencies must still "prove" their embedded lease populations are primarily service-driven to support accounting assumptions and judgments and ensure complete lease reporting for audit purposes. To do so, agencies must: 1. Identify the population of contracts; 2. Determine the components (lease and non-lease) within each contract; 3. Quantify lease and non-lease components to assess whether each contract's primary purpose is attributable to lease or non-lease components, and whether the transitional amendment applies; 4. Document judgments made regarding the purpose of each contract; 5. Report accordingly; and 6. Respond to audit inquiries regarding those judgments.¶ These steps require significant effort to evaluate, document, and defend—and may ultimately yield an immaterial balance. Even with the ability to "group" like contracts, agencies must review a sufficient number of contracts to support assumptions applied to the group.¶ State also asks FASAB to consider a permanent accommodation for intragovernmental agreements. Federal agencies frequently provide services to one another, which can include services with embedded leases. Under SFFAS 54, intragovernmental leases are recorded as lease expense/revenue and disclosed. Under the proposed practical expedient, intragovernmental agreements would require review to determine the primary purpose of the agreement—potentially resulting in the reporting of additional lease expense/revenue in a disclosure only. State asserts the additional costs to perform the review does not benefit financial statement users and requests that FASAB explicitly exclude intragovernmental agreements from embedded lease review.	The practical expedient can also be applied to eligible intragovernmental lease agreements. See staff analysis under attachment 1, **QFR 1 item D**.
21	Agree	The Department agrees with the proposed practical expedient reflected in paragraph 3. The Department believes that the adoption of the practical expedient should reduce the expected costs of applying SFFAS 54 requirements across the federal government without substantially diminishing the quality of leases reporting.	N/A
22	Agree	HHS agrees with the proposed practical expedient.¶ Adopting this practical expedient will save significant time and effort by eliminating the need to prepare amortization schedules and record interest and amortization entries. This streamlined approach reduces unnecessary administrative burden while providing information that continues to meet the needs of reasonable users of the financial statements.	N/A
23	Disagree	While FASAB's proposed practical expedient for embedded leases offers relief, it does not solve the core issue. To satisfy audit completeness assertions, the DoW would still be required to evaluate its entire contract universe—averaging 4 million active contracts annually—to identify and document which contracts might contain an embedded lease before electing the expedient. This initial population identification, data-gathering, and analysis would require a monumental, burdensome, and error-prone manual effort, even with the leverage of advanced AI, due to the unique complexity of DoW contracting structures.¶ Proposed Action & Decision: Amend SFFAS 62 to make the transitional relief permanent and completely eliminate the embedded lease requirement for federal entities exceeding a defined operational threshold.¶ Mission & Resource Alignment: The Department of War is responsible for a vast, global logistical footprint dedicated to national security and mission readiness. With millions of active contracts currently under management, our primary directive is to ensure that limited resources are strictly optimized for warfighting capabilities and defense operations. While the relief provided by the Exposure Draft (ED) is a positive step, eliminating the embedded lease requirement entirely is crucial for promoting consistency across the federal government, reducing audit complexity, and ensuring that valuable mission-support resources are not diverted to low-risk, administratively burdensome compliance exercises.	See staff analysis under attachment 1, **QFR 1 item D**.

QFR 2: Do you agree or disagree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6? 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.			
Ref. No.	**Answer**	**Response**	**Staff Notes**
1	Agree	I agree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6. For the same reasons listed in QFR 1, the addition of the language cited merely points to the use of the practical expedient, if it is applied. Beyond that, it does not impact SFFAS 54 in a material fashion. Therefore, I agree for that reason.	N/A
2	Agree	I agree. If this is to be added, the other referential paragraphs need to be updated to include the effect it will have.	N/A
3	Agree	SSA agrees. This allows for the activity to be treated in the appropriate manner based on the overall primary purpose of the contract/agreement. If there is a clear breakout of two functions, then paragraphs 73 and 74 still stand. The practical expedient eliminates issues where the predominant portion of the contract is non-lease based but previously may have had to have been treated as an embedded lease.	N/A
4	Agree	We agree.	N/A
5	Agree	We agree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79. These changes will help avoid inconsistency in application. We agree that the amendments should not affect how existing standards apply to contracts that are not eligible for the expedient.	N/A
6	Agree	The Department of the Treasury agrees with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54. Treasury understands that these amendments are intended to align the existing multiple-component contract guidance with the proposed practical expedient in paragraphs 77A-77F and are not intended to change the application of existing standards for contracts or agreements that are ineligible for the practical expedient.¶ Treasury supports the conforming amendments because they improve clarity and internal consistency within SFFAS 54. Treasury has no additional suggested revisions or alternative conforming amendments.	N/A
7	Agree	We agree with the proposed conforming amendments to SFFAS 54. The amendments are clear and understandable, and we believe they are appropriate.	N/A
8	Agree, w/ comments	We generally agree with the proposed conforming amendments to the referenced paragraphs. However, we do not believe the amendment to paragraph 74 is necessary. If an entity determines that the practical expedient in paragraphs 77A-77F applies to a contract or agreement, it would not be considered a lease, and paragraph 74 would not apply.	See staff analysis under attachment 1, **QFR 2 item E**.
9	Partially agree, w/ comments	Partially agree. We propose the Practical Expedient be explained upfront in the section to explain the options an agency can choose or in its own section in the standard. It may be confusing to have it organized by explaining details of multiple components and then providing the expedient afterwards.	See proposed conforming amendment to par. 73 of SFFAS 54 in the ED (par. 4).
10	Agree	Yes, GSA agrees. We have no revisions.	N/A
11	Agree	DHS agrees with the proposed conforming amendments to paragraphs 73, 74, 74, and 79 of SFFAS 54, as reflected in paragraphs 4-6. DHS believes these conforming amendments are necessary for the proposed practical expedient to be appropriately applied to embedded leases, and that the revised language shows how the practical expedient clause integrates with the existing guidance.	N/A
12	Agree	DOI agrees with the proposed conforming amendments.¶ The amendments appropriately align the existing SFFAS 54 guidance with the insertion of the new practical expedient. DOI supports the amendments and believes they enhance clarity without introducing new or unintended burden.	N/A
13	Agree	The FISC generally agrees with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6 for the reasons stated in the ED.	N/A
14	Agree	We agree with the proposed conforming amendments. These paragraphs ensure consistency across all SFFAS 54 component-allocation rules and avoid inadvertent requirements to separate components even when the expedient is elected. The amendments revise references in paragraphs 73, 74, 76, and 79 to incorporate the new practical expedient option (77A–77F). Without these updates, the existing text would conflict with or obscure the expedient.	N/A

QFR 2: Do you agree or disagree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6? 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.			
Ref. No.	**Answer**	**Response**	**Staff Notes**
15	Agree, w/ comments	Sikich agrees with the proposed conforming amendments to paragraphs 73, 74, and 79 of SFFAS 54, as reflected in paragraphs 4-6. However, paragraph 76 could be revised to further streamline calculations by removing the allocation requirement between lease and non-lease components when allocation is impracticable and allowing agencies to assign the total cost to the non-lease component/unit.	See staff analysis under attachment 1, **QFR 2 item F**.
16	Agree	Agree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79. The amendments align the component-separation guidance with the practical expedient provisions and clarify the application of existing requirements for contracts that are not eligible for the practical expedient. The amendments also support consistency in evaluating combined arrangements and reflect the rescission of the transitional accommodation.¶ If a contract includes both lease and non-lease components and the lease component is material, they should be separated. Also agree that underlying assets should be treated as separate lease components when terms differ, since this affects amortization. Paragraph 76 is helpful because identifying exact cost can be difficult, and reasonable estimates support more accurate reporting.	N/A
17	Agree	Agree. The amendments appropriately clarify how the practical expedient would interact with the existing lease guidance while preserving the current accounting requirements for contracts or agreements that do not qualify for the practical expedient. The Department of Justice does not recommend any additional conforming amendments.	N/A
18	Agree, w/ comments	We agree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54. The amendments appropriately incorporate the new practical expedient while preserving the existing accounting model for contracts that are not eligible for, or do not elect, the expedient.¶ We recommend adding a clarifying sentence confirming that ineligible contracts should continue to be evaluated under the existing multiple-component guidance in SFFAS 54.	See proposed conforming amendment to par. 73 of SFFAS 54 in the ED (par. 4).
19	Agree	Agree	N/A
20	Agree, w/ comments	State agrees with the clarifying sentence added to paragraphs 73, 74 and 79 of SFFAS 54. State requests that FASAB consider updating the language in paragraph 76, as it is overly burdensome as written. We request FASAB consider removing the requirement to perform allocation estimates for contracts where price allocation/ identification by component is not known or practicable and update the language to assign the total cost as “a single non-lease unit”.	See staff analysis under attachment 1, **QFR 2 item F**.
21	Agree	The Department agrees with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6. The Department believes that these proposed amendments will allow reporting entities to appropriately assess the primary purpose of contracts and agreements based on their nature and professional judgment. The Department does not have any suggested alternatives to propose.	N/A
22	Agree	HHS agrees with the proposed conforming amendments to reference the future paragraphs added (77A-77F). The amendments integrate the practical expedient into the existing lease accounting framework without altering the accounting requirements for contracts that do not qualify for the expedient.	N/A
23	Agree	Agrees with the amendments.	N/A

QFR 3: Do you 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 7-8? SFFAS 62 provided a transitional accommodation for embedded leases through September 30, 2026. The proposed practical expedient would extend this relief, becoming effective for reporting periods beginning after September 30, 2026. Please provide reasons for your views.			
Ref. No.	**Answer**	**Response**	**Staff Notes**
1	Agree	I agree with the proposed rescission of paragraphs 96A-96E of SFFAS 54 and SFFAS 62 and the proposed effective date, as reflected in paragraphs 7-8. Because agencies are already using the transition guidance, this rescission is in form only because it is effectively carrying that guidance permanently in paragraphs 77A-77C. Since agencies are already using the guidance, this gives certainty to agencies going forward on application and that they don't have to undo the things they have already done to comply with SFFAS 54 and 62. Having the effective date be for the periods after September 30, 2026 makes sense as, for lack of better terms, nothing would really check for agencies other than the permanency of the transition guidance becoming the permanent practical expedient.	N/A
2	Agree	I agree. The desired effect is to make those paragraphs permanent, thus there is no need to keep them in place after their time has expired.	N/A
3	Agree	Since this rescission would only apply after 9/30/26, when this new transitional accommodation takes place, SSA has no objections to the recission. The practical expedient allows for the activity to be treated in an appropriate manner based on the overall primary purpose of the contract/agreement and eliminates issues where the predominant portion of the contract is non-lease based but previously may have had to have been treated as an embedded lease.	N/A
4	Agree	We agree. Again, we are not aware of any issues in practice with the transitional amendment, so we are supportive of replacing it with permanent guidance.	N/A
5	Partially disagree, w/ comments	We agree with rescinding paragraphs 96A–96E of SFFAS 54 and SFFAS 62 once the permanent practical expedient becomes effective.¶ We disagree with the proposed effective date as it does not provide sufficient implementation time. We recommend an effective date for reporting periods beginning after September 30, 2027. Entities need adequate time to identify new contracts, analyze eligibility, establish a methodology, update policies and controls, and collaborate with acquisition offices on processes. The final pronouncement is expected in November 2026, which is after the proposed effective date. We recommend SFFAS 62 be extended to September 30, 2027. If the date is not extended and the pronouncement is published after the effective date, we recommend disclosing that the effective date is retroactive.	See staff analysis under attachment 1, **QFR 3 item G**.
6	Agree	The Department of the Treasury agrees with the proposed rescission of paragraphs 96A-96E of SFFAS 54 and SFFAS 62 and with the proposed effective date for reporting periods beginning after September 30, 2026.¶ Treasury supports rescinding paragraphs 96A-96E because the proposed amendments would incorporate the substance of the transitional accommodation into SFFAS 54 as ongoing guidance in paragraphs 77A-77F. This approach would avoid unnecessary duplication while maintaining practical relief for embedded leases after the current transitional accommodation expires.¶ Treasury also supports the proposed effective date because it provides continuity in application and would help agencies avoid a gap between the expiration of the existing transitional accommodation and the availability of the proposed practical expedient.	N/A
7	Partially disagree, w/ comments	We agree with the proposed rescission of the transitional accommodations in SFFAS 62, as they would no longer be necessary with the proposed practical expedient. However, we recommend a technical adjustment to the proposed effective date. As currently drafted ("effective for reporting periods beginning after September 30, 2026"), reporting entities with a calendar year-end (December 31) will experience a three-month gap in guidance. Specifically, for their FY 2026 reporting period (ending December 31, 2026), the SFFAS 62 accommodations will have expired on September 30, 2026, but the new expedient will not yet be effective (as their period began prior to September 30). To ensure seamless continuity and prevent this guidance gap, we recommend revising the effective date language to "Effective for reporting periods ending after September 30, 2026."	See staff analysis under attachment 1, **QFR 3 item H**.
8	Partially disagree, w/ comments	We believe the Board should consider retaining paragraphs 96A-96E of SFFAS 54. Entities that have not fully adopted SFFAS 54 (e.g., entities receiving disclaimers) may still need the transitional accommodation to account for embedded leases for contracts and agreements entered into during FY2024, FY2025 and FY2026.	These comments are addressed in staff's analysis under attachment 1, **QFR 1 item C**.
9	Agree	Agree.	N/A
10	Agree	Yes, GSA agrees. We have no revisions.	N/A

QFR 3: Do you 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 7-8? SFFAS 62 provided a transitional accommodation for embedded leases through September 30, 2026. The proposed practical expedient would extend this relief, becoming effective for reporting periods beginning after September 30, 2026. Please provide reasons for your views.

Ref. No.	Answer	Response	Staff Notes
11	Partially disagree, w/ comments	DHS agrees with the proposed recission of paragraphs 96A-96E of SFFAS 54 and SFFAS 62. DHS disagrees with the proposed effective date, as reflected in paragraph 7-8, as it does not provide sufficient implementation time. DHS recommends an effective date for reporting periods beginning after September 30, 2027. Entities need adequate time to identify new contracts, analyze eligibility, establish a methodology, update policies and controls, and collaborate with acquisition offices on processes. The final pronouncement is expected in November 2026, which is after the proposed effective date. DHS recommends SFFAS 62 be extended to September 30, 2027. If the date is not extended and the pronouncement is published after the effective date, DHS recommends disclosing that the effective date is retroactive.	See staff analysis under attachment 1, **QFR 3 item G**.
12	Agree	DOI agrees with the rescission of SFFAS 62 and supports the effective date.¶ SFFAS 62 transitional relief expires September 30, 2026. Replacing this transitional relief with a permanent practical expedient beginning with reporting periods after that date is a logical and beneficial progression.¶ The permanent expedient provides the needed continuity for DOI, ensuring that contracts previously reviewed under SFFAS 62 do not require reevaluation. This continuity eliminates unnecessary administrative rework and allows DOI bureaus to prioritize reviews for contracts not yet evaluated prior to FY 2027.	N/A
13	Agree	The FISC generally agrees with the proposed rescission and proposed effective date for the reasons stated in the ED.	N/A
14	Agree	We agree with the proposed rescission of SFFAS 62 and paragraphs 96A–96E of SFFAS 54, and we support the effective date (reporting periods beginning after September 30, 2026). The transitional accommodation was designed for a specific adoption period (fiscal year [FY] 2024–2026). Paragraph 7 states that these provisions are rescinded due to the expiration of the transitional period and the establishment of a permanent practical expedient. Additionally, the effective date is appropriately aligned as outlined in Paragraph 8. It sets an effective date for periods beginning after September 30, 2026, ensuring a seamless shift from the transitional SFFAS 62 relief to the permanent expedient, and no gap period where entities would be forced to account under full SFFAS 54 before the expedient becomes available.	N/A
15	Disagree, w/ comments	Due to the estimated timeline for when a final amendment would become available, we recommend the board consider extending the current standard and subsequent implementation of the new requirements for one year; periods after September 30, 2027.	See staff analysis under attachment 1, **QFR 3 item G**.
16	Agree	Agree with rescinding paragraphs 96A–96E within SFFAS's 54 and 62 and replacing them with the proposed practical expedient effective for reporting periods beginning after September 30, 2026. The proposed approach provides continuity in guidance following the expiration of the transitional accommodation and offers a consistent framework for evaluating embedded leases. It also supports reporting that reflects the primary purpose of the contract while reducing complexity associated with separating lease and non-lease components in certain arrangements.¶ Making the amendments permanent would give agencies a useful tool for tracking leases and multiple-component contracts, while still requiring disclosure of any election to combine non-material leases with non-lease components.	N/A
17	Agree	Agree. Replacing the temporary transitional accommodation with a permanent practical expedient would provide continued implementation relief while eliminating transitional guidance that would no longer be necessary. The proposed effective date would also provide continuity by making the practical expedient effective for reporting periods beginning after the current transitional accommodation expires.	N/A
18	Agree, w/ comments	We agree with rescinding SFFAS 62 and paragraphs 96A–96E of SFFAS 54 and with the proposed effective date for reporting periods beginning after September 30, 2026. This approach provides continuity after the expiration of the transitional accommodation and avoids maintaining expired transition guidance in the active standard. We recommend that FASAB clarify whether entities need to document a new election for contracts previously accounted for under SFFAS 62 and whether any additional transition disclosures are expected.	See proposed par. 77E in the ED (par. 3).
19	Partially disagree, w/ comments	Agree but recommend making this effective September 30, 2027. The Exposure Draft is not expected to be finalized and released until after September 30, 2026. This would cause entities to evaluate their agreements in the meantime. A statement can also be released to let entities know the transitional accommodation period would be extended and no action would be required.	See staff analysis under attachment 1, **QFR 3 item G**.
20	Partially disagree, w/ comments	State agrees with the proposed rescission of paragraphs 96A-96E of SFFAS 54 and SFFAS 62.¶ State requests FASAB consider extending SFFAS 62 until 9/30/2027 and extending the effective date to periods beginning after September 30, 2027, given the current proximity to the proposed implementation date.	See staff analysis under attachment 1, **QFR 3 item G**.

QFR 3: Do you 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 7-8? SFFAS 62 provided a transitional accommodation for embedded leases through September 30, 2026. The proposed practical expedient would extend this relief, becoming effective for reporting periods beginning after September 30, 2026. Please provide reasons for your views.			
Ref. No.	**Answer**	**Response**	**Staff Notes**
21	Agree	The Department agrees with the proposed rescission of the previous transitional accommodation and the permanent establishment of this relief, effective for reporting periods beginning after September 30, 2026. The Department believes the proposed practical expedient should provide reporting entities with long-term stability, may significantly reduce unnecessary preparation and audit-related efforts for reporting entities, and should help keep continued implementation costs reasonable for reporting entities.	N/A
22	Agree	HHS agrees with rescinding SFFAS 62 and replacing the temporary transitional accommodation with a permanent practical expedient. The Board indicated that entities broadly utilized the transitional relief and that continuing to require identification and accounting of embedded lease components would impose ongoing costs disproportionate to the benefits achieved. The proposed effective date provides an appropriate transition from the temporary accommodation to the permanent guidance.	N/A
23	Disagree	Eliminating the embedded lease requirement entirely would be preferable to promote consistency and reduce complexity. However, if not eliminated, prefer the data to be pushed to September 30, 2027, as the DoW has millions of contracts to review.	See staff analysis under attachment 1, **QFR 3 item G**.

SMC 1: 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.				
Ref. No.	**Agreement Type**	**Response**	**Known Examples Cited?**	**Staff Notes**
1	Agree	I believe that this paragraph adequately considers contracts that would fall out of being able to use the practical expedient and gives clear guidance on what agencies should do with respect to contracts or agreements that are modified that would cause it to no longer meet the conditions in paragraph 77A. I do concur that those modifications should be rare as most modifications should be to exercise contract options. Though, potential modifications that remove elements of the non-lease components could occur through a change in scope of a contract. This could then result in the contract landing squarely in the lease category. Similarly, a contract or agreement could be modified to remove lease components and having only a servicing component remaining. Both of these instances, should be rare in theory and practice.	N	N/A
2	Agree	I would also expect this situation to be rare. Arguably a modification that would change the primary purpose of a contract could be seen as a new contract, thus treating it as a separate lease prospectively makes the most sense. I have not observed this situation in my own work, but I could see a situation where a moving company is hired with the primary purpose of moving but also leasing a portion of storage space. If after the move, a mod was created that was primarily for the leasing of storage space, paragraph 77C would go into effect.	N	N/A
3	Agree	SSA agrees this would be rare. We have not encountered such situations while researching and implementing SFFAS 54 and related Standards, Technical Releases, etc.	N	N/A
4	Agree	Our group did not have any special insight into the frequency of such modifications or examples to share. However, we appreciate the inclusion of guidance for these situations and agree that the provisions are appropriate.	N	N/A
5	Agree, w/ comments	We agree with proposed paragraph 77C, that modifications changing the primary purpose of a contract from nonlease to lease would be rare in practice and challenging to test. Such changes would likely occur only when a modification substantially changes the scope or economics of the arrangement, such as when identified assets become dedicated to the entity and the lease component becomes predominant. Although infrequent, the guidance is appropriate to promote consistent treatment when these circumstances arise. We recommend clarifying that reassessment should be required only for when substantive modifications occur.	N	See staff analysis under attachment 1, **SMC 1 item I**.
6	Agree	The Department of the Treasury is not aware of any known examples in which a contract or agreement modification changed the primary purpose of the contract or agreement from a nonlease component to a lease component. Based on Treasury's experience, such modifications appear to be infrequent.¶ Treasury agrees that providing guidance for these circumstances is appropriate, even if such modifications are expected to be rare, because the guidance would help promote consistent application if such a modification occurs. Treasury does not have additional observations or implementation concerns related to proposed paragraph 77C.	N	N/A
7	N/A	Regarding the Board's request for feedback on the frequency of modifications that change a contract's primary purpose under proposed paragraph 77C, we believe that preparers are best positioned to comment on the matter.	N	N/A
8	Partially agree, w/ comments	We believe the Board should consider deleting the second sentence in paragraph 77C. If a contract or agreement that was not accounted for as a lease is modified in a way that causes it to become a lease, we believe it would be appropriate to apply paragraphs 73 and 74, as described in the first sentence of paragraph 77C. The reference to lease modification guidance in paragraph 84 would not be applicable because the agreement that was modified was not initially accounted for as a lease.	N	See staff analysis under attachment 1, **SMC 1 item J**.
9	N/A	VA is not aware of situations where this would occur/No comment.	N	N/A
10	Agree	GSA agrees with the proposal. GSA is unaware of an example where a contract modification would change the primary purpose of the contract or agreement from nonlease component to lease component.	N	N/A

SMC 1: 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.				
Ref. No.	**Agreement Type**	**Response**	**Known Examples Cited?**	**Staff Notes**
11	Agree, w/ comments	DHS agrees with proposed paragraph 77C and the Board's opinion that modifications changing the primary purpose of a contract from nonlease to lease would be rare in practice. DHS recommends clarifying that reassessment should be required only for when substantive modifications occur.	N	See staff analysis under attachment 1, **SMC 1 item I**.
12	Agree	DOI agrees with the Board's proposal and offers supportive comments.¶ We concur that modifications altering the primary purpose of a contract from non-lease to lease should trigger lease accounting on a prospective basis. DOI agrees with the Board's expectation that such modifications will be rare. Internal DOI experience confirms that contract modifications typically refine service components rather than shift fundamental purpose.	N	N/A
13	Agree	The FISC generally agrees with the proposed paragraph 77C that provides guidance when a contract or agreement modification changes the primary purpose of the contract or agreement from nonlease component to lease component.	N	N/A
14	Agree	The inclusion of the proposed paragraph 77C provides guidance for situations in which a contract modification changes the primary purpose of a contract from a non-lease component to a lease component. Although modifications and altering the primary purpose of a contract are expected to be rare, due to inherent constraints in Federal contracting phases, we do agree with the proposed approach and believe guidance is appropriate and sufficient. Additionally, the theme around promoting consistent treatment across contract populations is the primary reason around the agreement.	N	N/A
15	Agree	We agree.	N	N/A
16	Agree	Proposed paragraph 77C provides guidance for situations in which a contract or agreement modification changes the primary purpose of an arrangement from a nonlease component to a lease component. Such modifications are expected to occur infrequently because contracts are generally established with a defined purpose at inception, and significant changes to that purpose are uncommon. The proposed prospective application based on the remaining lease term and associated payments provides a consistent approach for accounting for these modifications.¶ We have no known examples to provide.	N	N/A
17	Agree	Agree. The modifications that change the primary purpose of a contract or agreement from a non-lease component to a lease component are expected to be infrequent. The Department of Justice is not aware of any examples in which such a modification has occurred. The proposed guidance in paragraph 77C appropriately addresses these circumstances should they arise.	N	N/A
18	Agree, w/ comments	We support proposed paragraph 77C. Prospective application when a modification causes a contract to no longer meet the practical expedient conditions is practical and appropriate. We recommend that FASAB provide examples of modifications that would change a contract's primary purpose from nonlease to lease. We also recommend clarifying that reassessment is needed for material modifications affecting scope, pricing, term, or dedicated asset use, but not for routine administrative changes.	N	See staff analysis under attachment 1, **SMC 1 item I**.
19	Agree	Agree	N	N/A
20	Agree	State agrees with the proposed guidance and considers the prospective treatment of the modification appropriate.	N	N/A
21	Agree	The Department does not readily have any known examples of such contract or agreement modifications that would change the primary purpose of the contract or agreement from non-lease to a lease component in practice. The Department believes that such a contract modification that changes the primary purpose of the contract is likely rare or somewhat rare across the federal government.	N	N/A

SMC 1: 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.				
Ref. No.	**Agreement Type**	**Response**	**Known Examples Cited?**	**Staff Notes**
22	Agree, w/ comments	HHS agrees with the proposed guidance addressing contract modifications that change the primary purpose of a contract. Although such circumstances are expected to be infrequent, providing explicit guidance enhances consistency in application and reduces uncertainty.¶ If there is a case when the nonlease component ends entirely and only the lease component remains, would it make sense to also refer to the paragraphs that discuss how to account for a lease (e.g., 39 – 53/54)?	N	Although such a scenario would result in the contract no longer containing nonlease components, proposed par. 77C would apply and the treatment under par. 73-74 remains reasonably clear and adaptable. References depend on the type of lease (short-term, intragov., or with-the-public) and party (lessee or lessor). Additional references and unique scenarios could introduce unnecessary complexity and duplication.
23	Disagree	The requirement to continually monitor rare modifications across over millions of active contracts imposes a severe administrative burden. In a dynamic mission environment, forcing contract officers to track these rare events distracts from procurement speed and operational agility. Eliminating the requirement entirely is the most effective safeguard.	N	N/A

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

EMBEDDED LEASES PRACTICAL EXPEDIENT

Statement of Federal Financial Accounting Standards XX

Public comments are not requested on this draft.

Month DD, 2026

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
- FASAB newsletters

Contact Us

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FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

~~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 receive confirmation or if you are unable to email your responses, please contact our office at (202) 512-7350.~~

~~The Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.~~

~~Sincerely,~~

~~Terry K. Patton~~

~~Terry K. Patton~~
~~Chair~~

441 G Street NW, Washington, D.C. 20548 ♦ (202) 512-7350 ♦ Fax (202) 512-7366

~~EXECUTIVE~~ SUMMARY

~~WHAT IS THE BOARD PROPOSING?~~

This ~~proposed~~ Statement of Federal Financial Accounting Standards (SFFAS) ~~would~~ amends SFFAS 54, *Leases*, by permanently extending the transitional relief provided under SFFAS 62, *Transitional Amendment to SFFAS 54*. The Board believes that providing permanent relief through a practical expedient ~~would~~ will considerably reduce the expected ongoing costs of applying SFFAS 54 requirements without substantially diminishing the quality of leases reporting.

~~This proposal would~~These amendments make available a practical expedient to contracts or agreements meeting certain eligibility conditions and allow reporting entities to account for them as nonlease in their entirety. The ~~proposal~~ amendments~~would~~ preserve key aspects of SFFAS 62 ~~transitional relief~~, including the eligibility conditions and the option of applying the expedient to groups of contracts or agreements that are reasonably similar in nature.

~~Reporting entities electing the practical expedient would be required to disclose the election.~~

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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~~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. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale, and, where applicable, provide a suggestion for alternative wording. 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 for your use at https://www.fasab.gov/documents-for-comment/. Please email your comments to leases@fasab.gov. We will confirm receipt of your comments. If you do not receive confirmation or if you are unable to email your responses, please contact our office at (202) 512-7350.~~

~~All responses are requested by July 30, 2026.~~

~~**QFR1.** Do you agree or disagree with the proposed practical expedient reflected in paragraph 3? The practical expedient would be inserted as a new sub-topic, paragraphs 77A-77F, under the "Contracts or Agreements with Multiple Components" topic of SFFAS 54, *Leases*. Please provide reasons for your views, including any suggested revisions.~~

~~**QFR2.** Do you agree or disagree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6? 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.~~

~~**QFR3.** Do you 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 7-8? SFFAS 62 provided a transitional accommodation for embedded leases through September 30, 2026. The proposed practical expedient would extend this relief, becoming effective for reporting periods beginning after September 30, 2026. Please provide reasons for your views.~~

~~**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*.

2. This Statement amends SFFAS 54, *Leases*, and rescinds SFFAS 62, *Transitional Amendment to SFFAS 54*, to provide a practical expedient whereby contracts or agreements meeting certain eligibility conditions may be accounted for as nonlease contracts or agreements in their entirety.

PRACTICAL EXPEDIENT AMENDMENT TO SFFAS 54

3. Immediately following paragraph 77 a new sub-topic under the "Contracts or Agreements with Multiple Components" topic and paragraphs 77A-77F 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-77F 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 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. 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 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 to apply the practical expedient provided under paragraphs 77A-77D should disclose its election.

77F. Contracts or agreements to which the transitional accommodation of SFFAS 62 was applied should continue to be accounted for as nonlease in their entirety. For any modifications to such contracts and agreements that result in the contracts or agreements no longer meeting the conditions set forth in paragraph 77A, paragraph 77C should be applied.

CONFORMING AMENDMENTS TO SFFAS 54 AND RECISSION OF SFFAS 62

4. 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-77F 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-77F is applied

5. 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-77F is applied).

6. 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 72-77F.

7. 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

8. The requirements of this Statement are effective for reporting periods ending ~~beginning~~ after September 30, 2026.

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. 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 described in practice as containing "embedded leases."

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 allowed 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 reviews of fiscal year 2024 and fiscal year 2025 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 demonstrate 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 also 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 leases 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 relief under SFFAS 62, this Statement allows 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 original contracts or agreements. The Board agreed, however, that providing guidance

[1]SFFAS 62, par. 5 and A7.
[2]Ibid., par. A18-A21, and A25.
~~[3]Feb. 2025 meeting materials, topic C.1, p. 18.~~

(proposed par. 77C) would be critical to enabling reporting entities to apply the standards in such a scenario—however rare.

A11. The Board discussed the importance of allowing contracts or agreements to which the transitional accommodation was applied to continue to be accounted for as nonlease in their entirety upon adoption of the practical expedient. Accordingly, the Board aligned the eligibility conditions under paragraph 77A to those of the transitional accommodation and addressed the matter directly under paragraph 77F. Paragraph 77F allows reporting entities to adopt the practical expedient without reperformance of contract reviews, eligibility assessments, or contract grouping procedures that were already performed when SFFAS 62 was applied during the transitional accommodation period.

A12. Given the potential for confusion that could arise from leaving similarly worded transitional guidance under the implementation topic area of SFFAS 54, the Board elected to rescind SFFAS 62 and remove the related legacy paragraphs 96A-96E from SFFAS 54. These paragraphs served as applicable GAAP in fiscal years 2024-2026. The legacy guidance will remain available in the original pronouncement file and applicable archived versions of the FASAB Handbook, should practitioners need to reference them for any reason. The Board believes that removing these paragraphs from the implementation topic area and including the practical expedient as a sub-topic to the contracts and agreements with multiple components topic area of SFFAS 54 will enhance the clarity and navigability of the guidance going forward.

SUMMARY OF OUTREACH AND RESPONSES

A13. The Board released an exposure draft (ED) on May 1, 2026, for public comment, with comments requested by July 30, 2026. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations commenting on Eds in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

A14. FASAB received 23 comment letters in response to the ED. Respondents were generally supportive of the proposed Statement and related practical expedient. Respondents generally agreed that the proposed standards provided a reasonable, cost-effective approach; appropriate flexibilities to reduce expected costs; and scalability for reporting entities with portfolios of contracts or agreements diverse in nature and size.

A15. In response to feedback provided in comment letters, the Board agreed to implement the following changes to ensure consistent application and enhance clarity:

a. Implementing a change to the effective date (paragraph 8) that will ensure the practical expedient covers the period between October 1, 2026, and December 31, 2026, for any reporting entities with reporting periods ending on December 31, 2026. The original proposal, which would have been effective for reporting periods ending after September 30, 2026, would have created a three-month gap for those entities, without a transitional accommodation period or practical expedient.

b. Implementing a technical correction under paragraph 77C. The proposal included an unnecessary, and potentially confusing, reference to paragraph 84 of SFFAS 54.

A16. The Board discussed comments raised by respondents requesting guidance for grouping contracts or agreements that are reasonably similar in nature under paragraph 77D. The Board believes that providing such guidance may be contrary to the objectives of this Statement. Specifically, this Statement is intended to reduce costs and provide flexibility for management to exercise reasonable professional judgment based on their knowledge of entity operations and contracts. Reporting entities widely adopted an analogous requirement under the legacy transitional accommodation—paragraph 96D. The Board did not receive technical inquiries, identify management or auditor internal control findings during archival reviews of FY 2024 and FY 2025 agency financial reports, or uncover other information during research and monitoring activities indicating that there had been practice issues when applying that requirement.

A17. The Board also discussed comments requesting guidance for making primary purpose attribution decisions under paragraph 77A.b. Paragraph 77A.b provides that the primary purpose attribution cannot appear to be unreasonable based on professional judgment. The Board believes that further guidance on this matter also may be contrary to the objectives of this Statement. Reporting entities widely adopted an analogous requirement under the legacy transitional accommodation—paragraph 96A.b). The Board did not receive technical inquiries, identify management or auditor internal control findings during archival reviews of FY 2024 and FY 2025 agency financial reports, or uncover other information during research and monitoring activities indicating that there had been practice issues when applying that requirement.

A18. A few respondents suggested providing broad, general exclusions or exemptions of embedded leases requirements. These respondents cited the expected costs of applying the requirements of paragraphs 77A-77F and that eliminating the requirements could further reduce costs. The Board disagrees. A broad, general exclusion from the requirements, without defining what would be eligible (par. 77A), or the accounting treatment (par. 77B-77F) would likely create practice issues and increase costs, which is contrary to the objectives of this Statement. Such action would introduce ambiguity and increase the risk of judgment-based conflicts between management and auditors regarding eligibility and accounting treatment, thereby increasing costs.

A19. Several preparer respondents disagreed with the proposed effective date. These respondents consistently cited concerns that they would be required to reperform contract reviews, eligibility assessments, or contract grouping procedures. The Board believes this matter is effectively addressed under paragraph 77F. Specifically, paragraph 77F provides that contracts or agreements to which the transitional accommodation in SFFAS 62 was applied should continue to be accounted for as nonlease contracts in their entirety. The Board carried forward the legacy requirements for the specific purpose of preventing reperformance of SFFAS 62 implementation activities and duplicative costs. Other respondents indicated agreement with the proposed effective date and an understanding of the Board's intent under paragraph 77F. However, because several respondents expressed concerns that implementation could require reperformance, the Board is hereby reaffirming its intent and declining to expand certain guidance that would create inconsistencies with the legacy transitional requirements (par. A16-A18 above).

A20. One respondent suggested clarifying transition requirements regarding two unusual transition scenarios. Both scenarios raised by the respondent are addressed under SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and paragraph 8 of this Statement.

A21. The Board's assessments of the expected benefits and costs were based on available evidence, including extensive implementation research and monitoring activities during the transitional relief period under SFFAS 62, archival reviews of agency financial reporting in FY 2024 and FY 2025, outreach activities, and careful analysis of public comments and follow-up with respondents. The Board concluded based on the available evidence that these efforts are substantially likely to achieved the desired objective of considerably reducing costs without substantially diminishing the quality of leases reporting.

BOARD APPROVAL

A22. [Pending]

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
~~QFR~~	~~Question for Respondents~~
~~SMC~~	~~Specific Matters for Comment~~
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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