Exposure Draft Questions for Respondents (QFR)
and Specific Matters for Comment (SMC)

Comments due: July 30, 2026

Embedded Leases Practical Expedient

Please select the type(s) of organization responding to this exposure draft. If you are not responding on behalf of an organization, please select "individual."

Accounting Firm	☐		
Federal Entity (user)	☐		
Federal Entity (preparer)	☒		
Federal Entity (auditor)	☐		
Federal Entity (other)	☐	If other, please specify:	
Association/Industry Organization	☐		
Nonprofit organization/Foundation	☐		
Other	☐	If other, please specify:	
Individual	☐		

Please provide your name.

Name:

Please identify your organization, if applicable.

Organization: Department of Transportation

Please email your responses 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.

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.

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.

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.

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.

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.

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.

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.

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.