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: Shawn Mickey

Please identify your organization, if applicable.

Organization: Department of the Treasury

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.

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preserve practical relief currently provided in paragraphs 96A-96E of SFFAS 54 and SFFAS 62, which are proposed to be rescinded, by incorporating the guidance into the body of SFFAS 54 as paragraphs 77A-77F.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.

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.

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.

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.

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.

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.

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.
