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: EY

Please identify your organization, if applicable.

Organization: EY

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 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.

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 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.

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 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.

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 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.