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: Leah McConnell

Please identify your organization, if applicable.

Organization: Department of Homeland Security (DHS)

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.

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.

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.

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.

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.

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.

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.

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.