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: William Kubistal

Please identify your organization, if applicable.

Organization: Kearney & Company

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.

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)?

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. 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.

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 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.

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 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.
