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: Melissa Sizemore, Principal

Please identify your organization, if applicable.

Organization: Sikich, LLC

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.

Sikich generally agrees with the Board's proposal to provide permanent relief through a practical expedient for embedded leases under SFFAS 54. However, we believe the assertion that the practical expedient would "considerably reduce" the ongoing costs of applying SFFAS 54 may be overstated. Given the complexity of the proposed requirements, we are also not convinced that reporting embedded leases would provide information that is beneficial to financial statement users or would significantly affect their decisions.

The draft Exposure Draft introduces a permanent practical expedient that could reduce the number of reportable leases by allowing agencies not to report embedded leases included in primary service contracts. Even so, determining and supporting management's judgment about the "primary" purpose of a contract remains subjective and costly.

Many federal agencies have complex contracts that are procured across the organization and may not be captured in a centralized system. Gathering and maintaining contract data at a level of detail sufficient to identify contracts that may include both lease and non-lease components is costly and likely would not be necessary absent the accounting standard.

To implement SFFAS 54 effectively, including the proposed practical expedient, agencies would need to:

- Identify the population of contracts containing both lease and non-lease components;
- Develop a methodology to assess each contract's primary purpose;
- Review and test results against that methodology;
- Document final accounting judgments; and
- Report on the results.

This process would require skilled resources and significant time. Although the practical expedient permits agencies to group similar contracts, which may reduce some review costs over time, agencies must first develop and document a sound grouping methodology and the related assumptions. As a result, any cost benefit may be delayed.

These costs would be incurred regardless of the materiality of the resulting lease population, with much of the effort focused on supporting the exclusion of contracts. Accordingly, Sikich recommends that the Board consider amending SFFAS 54 to provide broader permanent relief through a practical expedient that allows agencies to exclude embedded leases in general.

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.

Sikich agrees with the proposed conforming amendments to paragraphs 73, 74, and 79 of SFFAS 54, as reflected in paragraphs 4-6. However, paragraph 76 could be revised to further streamline calculations by removing the allocation requirement between lease and non-lease components when allocation is impracticable and allowing agencies to assign the total cost to the non-lease component/unit.

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.

Due to the estimated timeline for when a final amendment would become available, we recommend the board consider extending the current standard and subsequent implementation of the new requirements for one year; periods after September 30, 2027.

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.