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: Christopher Osborne

Please identify your organization, if applicable.

Organization: USEPA-Office of Finance and Administration

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.

Agree. The proposed practical expedient would reduce administrative burden and simplify accounting for contracts or agreements where the primary purpose is attributable to nonlease components, such as service agreements. The proposal provides a practical approach for applying SFFAS 54 to contracts or agreements with multiple components while maintaining transparency through the disclosure requirements.

Criteria in 77A would apply to contracts that are primarily service based, with lease components that are not material. Material leases would still be accounted for separately, so the expedient should mainly reduce time spent identifying and tracking smaller leases. Also, the disclosure requirement in 77E helps preserve transparency and provides a clear audit trail.

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.

Agree with the proposed conforming amendments to paragraphs 73, 74, 76, and 79. The amendments align the component-separation guidance with the practical expedient provisions and clarify the application of existing requirements for contracts that are not eligible for the practical expedient. The amendments also support consistency in evaluating combined arrangements and reflect the rescission of the transitional accommodation.

If a contract includes both lease and non-lease components and the lease component is material, they should be separated. Also agree that underlying assets should be treated as separate lease components when terms differ, since this affects amortization. Paragraph 76 is helpful because identifying exact cost can be difficult, and reasonable estimates support more accurate reporting.

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.

Agree with rescinding paragraphs 96A–96E within SFFAS’s 54 and 62 and replacing them with the proposed practical expedient effective for reporting periods beginning after September 30, 2026. The proposed approach provides continuity in guidance following the expiration of the transitional accommodation and offers a consistent framework for evaluating embedded leases. It also supports reporting that reflects the primary purpose of the contract while reducing complexity associated with separating lease and non-lease components in certain arrangements.

Making the amendments permanent would give agencies a useful tool for tracking leases and multiple-component contracts, while still requiring disclosure of any election to combine non-material leases with non-lease components.

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.

Proposed paragraph 77C provides guidance for situations in which a contract or agreement modification changes the primary purpose of an arrangement from a nonlease component to a lease component. Such modifications are expected to occur infrequently because contracts are generally established with a defined purpose at inception, and significant changes to that purpose are uncommon. The proposed prospective application based on the remaining lease term and associated payments provides a consistent approach for accounting for these modifications.

We have no known examples to provide.
