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: Accounting & Auditing Advisory Committee

Please identify your organization, if applicable.

Organization: Virginia Society of CPAs

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. For contracts whose primary purpose is attributable to nonlease components, such as services, requiring entities to identify and separately account for incidental embedded lease components may create significant cost without a corresponding reporting benefit.

We also support allowing the expedient to be applied to groups of reasonably similar contracts. However, we recommend that FASAB provide additional examples or implementation guidance to help entities consistently assess whether a contract's primary purpose is attributable to nonlease components.

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 to paragraphs 73, 74, 76, and 79 of SFFAS 54. The amendments appropriately incorporate the new practical expedient while preserving the existing accounting model for contracts that are not eligible for, or do not elect, the expedient.

We recommend adding a clarifying sentence confirming that ineligible contracts should continue to be evaluated under the existing multiple-component guidance in SFFAS 54.

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 rescinding SFFAS 62 and paragraphs 96A–96E of SFFAS 54 and with the proposed effective date for reporting periods beginning after September 30, 2026. This approach provides continuity after the expiration of the transitional accommodation and avoids maintaining expired transition guidance in the active standard.

We recommend that FASAB clarify whether entities need to document a new election for contracts previously accounted for under SFFAS 62 and whether any additional transition disclosures are expected.

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 support proposed paragraph 77C. Prospective application when a modification causes a contract to no longer meet the practical expedient conditions is practical and appropriate.

We recommend that FASAB provide examples of modifications that would change a contract’s primary purpose from nonlease to lease. We also recommend clarifying that reassessment is needed for material modifications affecting scope, pricing, term, or dedicated asset use, but not for routine administrative changes.