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: Donald Wood – Director Office of Financial Analysis and Reporting

Please identify your organization, if applicable.

Organization: Department of State (State)

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.

State appreciates the opportunity to review and comment on the proposed changes to SFFAS 54 and SFFAS 62. The practical expedient in paragraph 3 will provide some relief in our final stage of implementation of SFFAS 54, regarding embedded leases. We agree with making the practical expedient permanent and with the guidance allowing agencies to "group contracts or agreements that are reasonably similar in nature," which will improve efficiency in contract reviews.

However, we ask the Board to consider whether requiring agencies to further review embedded lease contracts is beneficial to financial statement users, given the likelihood that lease components are immaterial for many agencies and the associated costs. While the proposed practical expedient offers some relief, it does not eliminate the burden. Agencies must still "prove" their embedded lease populations are primarily service-driven to support accounting assumptions and judgments and ensure complete lease reporting for audit purposes. To do so, agencies must:

1. Identify the population of contracts;
2. Determine the components (lease and non-lease) within each contract;

3. Quantify lease and non-lease components to assess whether each contract's primary purpose is attributable to lease or non-lease components, and whether the transitional amendment applies;
4. Document judgments made regarding the purpose of each contract;
5. Report accordingly; and
6. Respond to audit inquiries regarding those judgments.

These steps require significant effort to evaluate, document, and defend—and may ultimately yield an immaterial balance. Even with the ability to "group" like contracts, agencies must review a sufficient number of contracts to support assumptions applied to the group.

State also asks FASAB to consider a permanent accommodation for intragovernmental agreements. Federal agencies frequently provide services to one another, which can include services with embedded leases. Under SFFAS 54, intragovernmental leases are recorded as lease expense/revenue and disclosed. Under the proposed practical expedient, intragovernmental agreements would require review to determine the primary purpose of the agreement—potentially resulting in the reporting of additional lease expense/revenue in a disclosure only. State asserts the additional costs to perform the review does not benefit financial statement users and requests that FASAB explicitly exclude intragovernmental agreements from embedded lease review.

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.

State agrees with the clarifying sentence added to paragraphs 73, 74 and 79 of SFFAS 54. State requests that FASAB consider updating the language in paragraph 76, as it is overly burdensome as written. We request FASAB consider removing the requirement to perform allocation estimates for contracts where price allocation/identification by component is not known or practicable and update the language to assign the total cost as “a single **non-lease** 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.

State agrees with the proposed rescission of paragraphs 96A-96E of SFFAS 54 and SFFAS 62.

State requests FASAB consider extending SFFAS 62 until 9/30/2027 and extending the effective date to periods beginning after September 30, 2027, given the current proximity to the proposed implementation date.

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.

State agrees with the proposed guidance and considers the prospective treatment of the modification appropriate.