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: Spencer Farrar, Director, Office of Financial Reporting and Policy

Please identify your organization, if applicable.

Organization: U.S. Department of Commerce

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.

The Department agrees with the proposed practical expedient reflected in paragraph 3. The Department believes that the adoption of the practical expedient should reduce the expected costs of applying SFFAS 54 requirements across the federal government without substantially diminishing the quality of leases reporting.

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.

The Department agrees with the proposed conforming amendments to paragraphs 73, 74, 76, and 79 of SFFAS 54, as reflected in paragraphs 4-6. The Department believes that these proposed amendments will allow reporting entities to appropriately assess the primary purpose of contracts and agreements based on their nature and professional judgment. The Department does not have any suggested alternatives to propose.

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.

The Department agrees with the proposed rescission of the previous transitional accommodation and the permanent establishment of this relief, effective for reporting periods beginning after September 30, 2026. The Department believes the proposed practical expedient should provide reporting entities with long-term stability, may significantly reduce unnecessary preparation and audit-related efforts for reporting entities, and should help keep continued implementation costs reasonable for reporting entities.

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 Department does not readily have any known examples of such contract or agreement modifications that would change the primary purpose of the contract or agreement from non-lease to a lease component in practice. The Department believes that such a contract modification that changes the primary purpose of the contract is likely rare or somewhat rare across the federal government.
