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: Carla Mewborn

Please identify your organization, if applicable.

Organization: Department of Health and Human Services

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.

HHS agrees with the proposed practical expedient.

Adopting this practical expedient will save significant time and effort by eliminating the need to prepare amortization schedules and record interest and amortization entries. This streamlined approach reduces unnecessary administrative burden while providing information that continues to meet the needs of reasonable users of the financial statements.

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.

HHS agrees with the proposed conforming amendments to reference the future paragraphs added (77A-77F). The amendments integrate the practical expedient into the existing lease accounting framework without altering the accounting requirements for contracts that do not qualify for the expedient.

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.

HHS agrees with rescinding SFFAS 62 and replacing the temporary transitional accommodation with a permanent practical expedient. The Board indicated that entities broadly utilized the transitional relief and that continuing to require identification and accounting of embedded lease components would impose ongoing costs disproportionate to the benefits achieved. The proposed effective date provides an appropriate transition from the temporary accommodation to the permanent guidance.

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.

HHS agrees with the proposed guidance addressing contract modifications that change the primary purpose of a contract. Although such circumstances are expected to be infrequent, providing explicit guidance enhances consistency in application and reduces uncertainty.

If there is a case when the nonlease component ends entirely and only the lease component remains, would it make sense to also refer to the paragraphs that discuss how to account for a lease (e.g., 39 – 53/54)?