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: Jonathan Campbell

Please identify your organization, if applicable.

Organization: Department of War (DoW)

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.

While FASAB's proposed practical expedient for embedded leases offers relief, it does not solve the core issue. To satisfy audit completeness assertions, the DoW would still be required to evaluate its entire contract universe—averaging 4 million active contracts annually—to identify and document which contracts might contain an embedded lease before electing the expedient. This initial population identification, data-gathering, and analysis would require a monumental, burdensome, and error-prone manual effort, even with the leverage of advanced AI, due to the unique complexity of DoW contracting structures.

Proposed Action & Decision: Amend SFFAS 62 to make the transitional relief permanent and completely eliminate the embedded lease requirement for federal entities exceeding a defined operational threshold.

Mission & Resource Alignment: The Department of War is responsible for a vast, global logistical footprint dedicated to national security and mission readiness. With millions of active contracts currently under management, our primary directive is to ensure that limited resources are strictly optimized for warfighting capabilities and defense operations. While the relief provided by the Exposure Draft (ED) is a positive step, eliminating the embedded lease requirement entirely is crucial for promoting consistency across the federal government, reducing audit complexity, and ensuring that valuable mission-support resources are not diverted to low-risk, administratively burdensome compliance exercises.

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.

Agrees with the amendments.

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.

Eliminating the embedded lease requirement entirely would be preferable to promote consistency and reduce complexity. However, if not eliminated, prefer the data to be pushed to September 30, 2027, as the DoW has millions of contracts to review.

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 requirement to continually monitor rare modifications across over millions of active contracts imposes a severe administrative burden. In a dynamic mission environment, forcing contract officers to track these rare events distracts from procurement speed and operational agility. Eliminating the requirement entirely is the most effective safeguard.