FASAB
THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

EMBEDDED LEASES PRACTICAL EXPEDIENT

Statement of Federal Financial Accounting Standards 65

Pending copy under sponsor and congressional review

December 4, 2026 (projected issuance date)

This pending pronouncement was approved by the Board and is now under a 90-day review by the Government Accountability Office and the Department of the Treasury, in accordance with the Board's rules of procedure. If the Board member sponsors do not object to this pronouncement, it will become a final Statement on December 4, 2026. FASAB staff will replace this pending version with a final pronouncement at that time.

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or "the Board") in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at www.fasab.gov:

- Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- Mission statement
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

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SUMMARY

This Statement of Federal Financial Accounting Standards (SFFAS) amends SFFAS 54, *Leases*, by permanently extending the transitional relief provided under SFFAS 62, *Transitional Amendment to SFFAS 54*. The Federal Accounting Standards Advisory Board concluded that providing permanent relief through a practical expedient will reduce the ongoing costs of applying SFFAS 54 requirements without diminishing the overall quality of leases reporting.

These amendments make available a practical expedient to contracts or agreements meeting certain eligibility conditions and allow reporting entities to account for them as nonlease in their entirety. The amendments preserve key aspects of SFFAS 62, including the eligibility conditions and the option of applying the expedient to groups of contracts or agreements that are reasonably similar in nature.

MATERIALITY

The provisions of this Statement of Federal Financial Accounting Standards need not be applied to information if the effect of applying the provision(s) is immaterial.[1] A misstatement, including omission of information, is material if, in light of surrounding facts and circumstances, it could reasonably be expected that the judgment of a reasonable user relying on the information would change or be influenced by the correction or inclusion of the information. Materiality should be evaluated in the context of the specific reporting entity. Determining materiality requires appropriate and reasonable judgment in considering the specific facts, circumstances, size, and nature of the misstatement. Consequently, after quantitative and qualitative factors are considered, materiality may vary by financial statement, line item, or group of line items within an entity.

[1] Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

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STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports, including the consolidated financial report of the U.S. Government, in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

2. This Statement amends SFFAS 54, *Leases*, and rescinds SFFAS 62, *Transitional Amendment to SFFAS 54*, to provide a practical expedient whereby contracts or agreements meeting certain eligibility conditions may be accounted for as nonlease contracts or agreements in their entirety.

PRACTICAL EXPEDIENT AMENDMENT TO SFFAS 54

3. Immediately following paragraph 77 a new sub-topic under the "Contracts or Agreements with Multiple Components" topic and paragraphs 77A-77F are added to SFFAS 54 as follows:

Practical Expedient

77A. As a practical expedient, for contracts or agreements that meet both of the following conditions, reporting entity lessees and lessors may apply the practical expedient described under paragraphs 77B-77F to those contracts or agreements.

a. The contracts or agreements contain nonlease component(s) and may contain lease component(s).

b. The purpose of the contracts or agreements is primarily attributable to the nonlease component(s), such as service components, based on management's assessment of the nature of the contracts or agreements and professional judgment. The primary purpose attribute should not appear to be unreasonable based on the nature of the contracts or agreements and professional judgment.

77B. For contracts or agreements meeting the paragraph 77A conditions above, a reporting entity may elect to account for such contracts or agreements, including the lease component(s), as nonlease contracts or agreements in their entirety.

77C. For any contract or agreement modifications that result in the contracts or agreements no longer meeting the conditions set forth in paragraph 77A, paragraphs 73-74 should be prospectively applied based on the remaining term(s) of the lease component(s) and associated payments as of the effective date of the modification. However, if such modifications are accounted for as a separate or new lease under paragraph 84 and, as a result, the remainder of the contract or agreement continues to meet the conditions of paragraph 77A, the reporting entity may elect to apply the practical expedient under paragraph 77B to the remainder of the contract or agreement.

77D. A reporting entity may apply the provisions of paragraphs 77A-77C to groups of contracts or agreements that are reasonably similar in nature.

77E. A reporting entity that elects to apply the practical expedient provided under paragraphs 77A-77D should disclose its election.

77F. Contracts or agreements to which the transitional accommodation of SFFAS 62 was applied should continue to be accounted for as nonlease in their entirety. For any modifications to such contracts and agreements that result in the contracts or agreements no longer meeting the conditions set forth in paragraph 77A, paragraph 77C should be applied.

CONFORMING AMENDMENTS TO SFFAS 54 AND RECISSION OF SFFAS 62

4. Paragraphs 73-74 of SFFAS 54 are amended as follows:

   73. If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and a nonlease component (such as maintenance services for the building), the federal entity should account for the lease and nonlease components as separate contracts or agreements, unless the contract or agreement meets the exception in paragraph 76 or the practical expedient under paragraphs 77A-77F is applied.

   74. If a lease involves multiple underlying assets and the assets have different terms, the lessor and lessee should account for each underlying asset as a separate lease component. The provisions of this paragraph should be applied unless the contract or agreement meets the exception in paragraph 76 or the practical expedient under paragraphs 77A-77F is applied.

5. Paragraph 76 of SFFAS 54 is amended as follows:

   76. If a contract or agreement does not include prices for individual components or if any of those prices appear to be unreasonable as provided in paragraph 75, lessors and lessees should use professional judgement to determine their best estimate for allocating the contract or agreement price to those components, maximizing the use of observable information. If it is not practicable to determine the best estimate for price allocation for some or all components in a contract or agreement, a federal entity should account for those components as a single lease unit (unless the practical expedient under paragraphs 77A-77F is applied).

6. Paragraph 79 of SFFAS 54 is amended as follows:

79. If multiple contracts or agreements are determined to be part of the same lease contract or agreement, that contract or agreement should be evaluated in accordance with the guidance for contracts or agreements with multiple components in paragraphs 72-77F.

7. Due to the expiration of the transitional accommodation period and the practical expedient amendments above, SFFAS 62 and its transitional amendments under paragraphs 96A-96E of SFFAS 54 are rescinded.

EFFECTIVE DATE

8. The requirements of this Statement are effective for reporting periods ending after September 30, 2026.

The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, chapter 7, titled *Materiality*, for a detailed discussion of the materiality concepts.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this proposed Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this proposed Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect subsequent changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

A1. The Federal Accounting Standards Advisory Board (FASAB or "the Board") issued SFFAS 54, *Leases*, in April 2018 with an effective date for reporting periods beginning after September 30, 2023. SFFAS 54 requires entities to identify and evaluate leases, which improves accountability for their resources and obligations. As noted in paragraph 74 of Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting*, "accounting can and should contribute to achieving and demonstrating several kinds of accountability, such as

a. accounting for financial resources;

b. accountability for faithful compliance or adherence to legal requirements and administrative policies;

c. accountability for efficiency and economy in operations; and

d. accountability for the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness."

A2. Following the issuance of SFFAS 54, the Board commenced a post-issuance project on its technical agenda to identify implementation challenges and develop guidance. As part of these efforts, the Board identified challenges in the area of "embedded leases" based on the research presented by technical staff and additional information provided during a clarification discussion held in April 2023. Contracts or agreements that contain both lease component(s) and nonlease component(s), such as service components, and serve a primary purpose attributable to the nonlease component(s), are often described in practice as containing "embedded leases."

A3. In the interest of reducing implementation costs associated with "embedded leases," the Board issued SFFAS 62, *Transitional Amendment to SFFAS 54*, in November 2023. SFFAS 62 provided a transitional accommodation for certain contracts or agreements containing "embedded leases" and allowed for prospective application of paragraph 73 to eligible contracts or agreements following the end of the transitional accommodation period.[1]

A4. Under SFFAS 62, the Board decided to provide transitional relief based on contract- or agreement-level primary purpose assessments. The Board concluded that this would allow reporting entities to more manageably implement SFFAS 54 requirements for "embedded leases" while avoiding potential accountability implications associated with permanent contract- or agreement-level unit of account measurement approach alternatives. The Board determined that additional research and due process would be necessary prior to considering additional or permanent relief.[2]

A5. Following issuance of SFFAS 62, the Board continued research and monitoring activities during fiscal year (FY) 2024 and FY 2025. In its reviews of FY 2024 and FY 2025 reporting, the Board found that reporting entities with significant leases almost universally elected to apply the transitional accommodation for the maximum period of three years. These findings demonstrate that the transitional amendments facilitated adoption of SFFAS 54 and met the initial objectives of SFFAS 62.

A6. The Board's research and monitoring also identified concerns regarding high expected ongoing implementation costs of prospectively applying SFFAS 54 requirements to contracts or agreements that may contain lease components. The Board also found that applying these requirements to such contracts or agreements is unlikely to substantially improve the quality of financial reporting of leases. These findings were based on the Board's post-implementation monitoring and reviews of leases reporting and disclosures. The Board did not identify audit findings or practitioner concerns regarding misapplication of the transitional accommodation to multiple component contracts with a primary purpose related to leases.

A7. In response to these concerns and considerations, the Board concluded that providing permanent relief through a practical expedient will considerably reduce the expected ongoing costs of applying SFFAS 54 requirements without diminishing the overall quality of leases reporting.

A8. The Board does not expect the practical expedient will have a material effect on the lease asset or lease liability balances of the federal government, the timing and pattern of expense/revenue recognition for eligible contracts or agreements, or the quality of financial reporting on leases and disclosures.

A9. Similar to the transitional relief under SFFAS 62, this Statement allows reporting entities to assess the primary purpose of contracts or agreements based on their nature and professional judgement, provided that such attributions do not appear to be unreasonable.

A10. The Board also discussed the potential need for guidance on contracts or agreements that are subsequently modified and, as a result, no longer meet the practical expedient conditions. The Board expects this would be rare due to inherent constraints that would generally prevent modifications from materially affecting the primary purpose of the original contracts or agreements. The Board agreed, however, that providing guidance

[1]SFFAS 62, par. 5 and A7.
[2]Ibid., par. A18-A21, and A25.

(par. 77C) is critical to enabling reporting entities to apply the standards in such a scenario—however rare.

A11. The Board discussed the importance of allowing contracts or agreements to which the transitional accommodation was applied to continue to be accounted for as nonlease in their entirety upon adoption of the practical expedient. Accordingly, the Board aligned the eligibility conditions under paragraph 77A to those of the transitional accommodation and addressed the matter directly under paragraph 77F. Paragraph 77F allows reporting entities to adopt the practical expedient without reperformance of contract reviews, eligibility assessments, or contract grouping procedures that were already performed when SFFAS 62 was applied during the transitional accommodation period.

A12. Given the potential for confusion that could arise from leaving similarly worded transitional guidance under the implementation topic area of SFFAS 54, the Board elected to rescind SFFAS 62 and remove the related legacy paragraphs 96A-96E from SFFAS 54. These paragraphs served as applicable GAAP in FY 2024-2026. The legacy guidance will remain available in the original pronouncement file and applicable archived versions of the FASAB Handbook, should practitioners need to reference them for any reason. The Board concluded that removing these paragraphs from the implementation topic area and including the practical expedient as a sub-topic to the contracts and agreements with multiple components topic area of SFFAS 54 will enhance the clarity and navigability of the guidance going forward.

Summary of Outreach and Responses

A13. The Board released an exposure draft (ED) on May 1, 2026, for public comment, with comments requested by July 30, 2026. Upon release of the ED, FASAB notified constituents through the FASAB website and listserv, the Federal Register, and FASAB newsletter. FASAB also provided news releases to its press contacts, including various news organizations and committees of professional associations commenting on EDs in the past. To encourage responses, a reminder notice was provided to FASAB's listserv near the comment deadline.

A14. FASAB received 23 comment letters in response to the ED. Respondents were generally supportive of the proposed Statement and related practical expedient. Respondents generally agreed that the proposed standards provided a reasonable, cost-effective approach; appropriate flexibilities to reduce expected costs; and scalability for reporting entities with portfolios of contracts or agreements diverse in nature and size.

A15. In response to feedback provided in comment letters, the Board agreed to implement the following changes to ensure consistent application and enhance clarity:

a. Implementing a change to the effective date (par. 8) that will ensure the practical expedient covers the period between October 1, 2026, and December 31, 2026, for any reporting entities with reporting periods ending on December 31, 2026. The original proposal, which would have been effective for reporting periods ending after September 30, 2026, would have created a three-month gap for those entities, without a transitional accommodation period or practical expedient.

b. Implementing a technical correction under paragraph 77C. The proposal included an unnecessary, and potentially confusing, reference to paragraph 84 of SFFAS 54.

A16. The Board discussed comments raised by respondents requesting guidance for grouping contracts or agreements that are reasonably similar in nature under paragraph 77D. The Board concluded that providing such guidance would introduce new requirements, reduce flexibility, and create additional reperformance costs. Specifically, this Statement is intended to reduce costs and provide flexibility for management to exercise reasonable professional judgment based on their knowledge of entity operations and contracts. Reporting entities widely adopted an analogous requirement under the legacy transitional accommodation—paragraph 96D. The Board did not receive technical inquiries, identify management or auditor internal control findings during archival reviews of FY 2024 and FY 2025 agency financial reports, or uncover other information during research and monitoring activities indicating that there had been practice issues when applying that requirement.

A17. The Board also discussed comments requesting guidance for making primary purpose attribution decisions under paragraph 77A.b. Paragraph 77A.b provides that the primary purpose attribution cannot appear to be unreasonable based on professional judgment. The Board concluded that further guidance on this matter would introduce new requirements, reduce flexibility, and create additional reperformance costs. Reporting entities widely adopted an analogous requirement under the legacy transitional accommodation—paragraph 96A.b. The Board did not receive technical inquiries, identify management or auditor internal control findings during archival reviews of FY 2024 and FY 2025 agency financial reports, or uncover other information during research and monitoring activities indicating that there had been practice issues when applying that requirement.

A18. A few respondents suggested providing broad, general exclusions or exemptions of embedded leases requirements. These respondents cited the expected costs of applying the requirements of paragraphs 77A-77F and that eliminating the requirements could further reduce costs. The Board concluded that a broad, general exclusion from the requirements, without defining what would be eligible (par. 77A), or the accounting treatment (par. 77B-77F) would likely create practice issues and increase costs, which is contrary to the objectives of this Statement. Such action would introduce ambiguity and increase the risk of judgment-based conflicts between management and auditors regarding eligibility and accounting treatment, thereby increasing costs.

A19. Several preparer respondents disagreed with the proposed effective date. These respondents consistently cited concerns that they would be required to reperform contract reviews, eligibility assessments, or contract grouping procedures. The Board concluded that this matter is effectively addressed under paragraph 77F. Specifically, paragraph 77F provides that contracts or agreements to which the transitional accommodation in SFFAS 62 was applied should continue to be accounted for as nonlease contracts in their entirety. The Board carried forward the legacy requirements for the specific purpose of preventing reperformance of SFFAS 62 implementation activities and duplicative costs. Other respondents indicated agreement with the proposed effective date and an understanding of the Board's intent under paragraph 77F. However, because several respondents expressed concerns that implementation could require reperformance, the Board is hereby reaffirming its intent and declining to expand certain guidance that would create inconsistencies with the legacy transitional requirements (par. A16-A18 above).

A20. The Board's assessments of the expected benefits and costs were based on available evidence, including extensive implementation research and monitoring activities during the transitional relief period under SFFAS 62, archival reviews of agency financial reporting in FY 2024 and FY 2025, outreach activities, and careful analysis of public comments and follow-up with respondents. The Board concluded, based on the available evidence, that these efforts are likely to achieve the desired objective of reducing costs without diminishing the overall quality of leases reporting.

Board Approval

A21. This Statement was approved for issuance by all members of the Board.

APPENDIX B: ABBREVIATIONS

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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