

**EMBEDDED LEASES  
PRACTICAL EXPEDIENT**

AMENDING SFFAS 54, *LEASES*, AND RESCINDING SFFAS  
62, *TRANSITIONAL AMENDMENT TO SFFAS 54*

**Statement of Federal Financial Accounting Standards XX**

**Exposure Draft**

Written comments are requested by July 30, 2026

May 1, 2026

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## 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](http://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](#)
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May 1, 2026

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards (SFFAS) titled *Embedded Leases Practical Expedient*. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose.

Responses are requested by July 30, 2026.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Please provide your comments by email to [leases@fasab.gov](mailto: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.

The Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

*Terry K. Patton*

Terry K. Patton  
Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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This proposed Statement of Federal Financial Accounting Standards (SFFAS) would amend SFFAS 54, *Leases*, by permanently extending the transitional relief provided under SFFAS 62. The Board believes that providing permanent relief through a practical expedient would considerably reduce the expected ongoing costs of applying SFFAS 54 requirements without substantially diminishing the quality of leases reporting.

This proposal would 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 proposal would preserve key aspects of SFFAS 62 transitional relief, including the eligibility conditions and the option of applying the expedient to groups of contracts or agreements that are reasonably similar in nature.

Reporting entities electing the practical expedient would be required to disclose the election.

### MATERIALITY

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The provisions of this Statement of Federal Financial Accounting Standards would not need to be applied to information if the effect of applying the provision(s) is immaterial.<sup>1</sup> 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.

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<sup>1</sup> 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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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions for respondents (QFR) and specific matter for comment (SMC) below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Comments are most helpful if they indicate the specific paragraph(s) to which they relate, contain a clear rationale, and, where applicable, provide a suggestion for alternative wording. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available for your use at <https://www.fasab.gov/documents-for-comment/>. Please email your comments to [leases@fasab.gov](mailto: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.

All responses are requested by July 30, 2026.

- QFR1.** 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.
- QFR2.** 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.
- QFR3.** 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.
- SMC1.** 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.

## PROPOSED STANDARDS

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### SCOPE

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1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFR), 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

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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

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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 72-77E.

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

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8. The requirements of this Statement are effective for reporting periods beginning 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

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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—would 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

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- 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 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 (SFFAC) 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.<sup>1</sup>

- A4. Under SFFAS 62, the Board decided to provide transitional relief based on contract- or agreement-level primary purpose assessments. The Board believed 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.<sup>2</sup>
- A5. Following issuance of SFFAS 62, the Board continued research and monitoring activities during fiscal years 2024 and 2025. In its review of fiscal year 2024 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.<sup>3</sup>
- 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 believes that providing permanent relief through a practical expedient will considerably reduce the expected ongoing costs of applying SFFAS 54 requirements without substantially diminishing the quality of leases reporting.
- A8. Furthermore, 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

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<sup>1</sup>SFFAS 62, par. 5 and A7.

<sup>2</sup>*Ibid.*, par. A18-A21, and A25.

<sup>3</sup>Feb. 2025 meeting materials, topic C.1, p. 18.

(proposed par. 77C) would be 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.
- 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 fiscal years 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 believes 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.

## APPENDIX B: ABBREVIATIONS

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ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFRR	General Purpose Federal Financial Report
QFR	Question for Respondents
SMC	Specific Matters for Comment
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

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