

Technical Line

FASAB – final guidance

Navigating the requirements of the leases guidance for federal lessors and lessees

In this issue:

Overview	1
Key considerations	2
Scope and expedients	2
Lease term	4
Lessee accounting	5
Lessor accounting.....	7
Other considerations	10
Contracts or agreements with multiple components	10
Contract or agreement combinations	10
Lease terminations and modifications	10
Subleases	11
Sale-leaseback and lease- leaseback transactions..	11
Transition considerations ..	12

What you need to know

- The FASAB's guidance in SFFAS 54 requires federal lessees to recognize a lease asset and lease liability for certain leases at the commencement of the lease term. This is a significant change in practice.
- The guidance requires federal lessors to recognize a lease receivable and unearned revenue for certain leases.
- The standard provides several expedients and scope exclusions for intragovernmental leases, short-term leases, and contracts or agreements that transfer ownership.
- Both federal lessees and lessors will need to gather and track more information to comply with the disclosure requirements.
- The guidance is effective for reporting periods beginning after 30 September 2023.

Overview

The Statement of Federal Financial Accounting Standards (SFFAS) 54, *Leases* and subsequent amendments issued by the Federal Accounting Standards Advisory Board (FASAB) requires federal lessees to record certain leases on the balance sheet. This is a significant change in practice. Additionally, SFFAS 54 provides guidance on lessor accounting, including requirements for lessors to recognize a lease receivable and unearned (or deferred) revenue for certain leases.



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To implement the new guidance, federal lessees and lessors will have to make changes to their accounting policies, processes and controls, as well as their information technology (IT) systems. Therefore, it is important that federal entities focus on understanding the new requirements and the effects on their financial statements and disclosures.

The new guidance supersedes the leases guidance in SFFAS 5, paragraphs 43 through 46, and SFFAS 6, paragraphs 20 and 29. SFFAS 54 has been amended by SFFAS 58, 60, 61 and 62.¹ This publication incorporates guidance from all four standards.

Key considerations

To apply the new guidance, federal entities need to first determine whether an arrangement is a lease or contains a lease as defined in the standard. This may require entities to apply judgment. Although a contract or agreement may be labeled a lease, it does not mean it is a lease, or vice versa. The determination of whether a contract is a lease is more important under the new standard because an entity that fails to identify a complete population of leases could materially misstate its financial statements (e.g., a lessee might underestimate its lease assets and lease liabilities).

Scope and expedients

Lease definition

A lease is defined in SFFAS 54, paragraph 2, as a contract or agreement in which a lessor conveys the right to control the use of an underlying asset (i.e., property, plant and equipment (PP&E)) to the lessee for a period of time in exchange for consideration. The underlying asset may be explicitly specified in the contract or agreement or implicitly specified at the time the asset is made available for use by the lessee.

A contract or agreement conveys the right to control the use of an asset if it gives the lessee both:

- ▶ The right to obtain economic benefits or services from use of the underlying asset
- ▶ The right to control access to the economic benefits or services of the underlying asset

The standard does not apply to contracts or agreements for services, unless the contract or agreement contains both a lease component and a service (or non-lease) component. It also does not apply to leases of assets before the commencement of the lease term or to leases of internal use software.

Intragovernmental leases

SFFAS 54 defines an intragovernmental lease as a lease (as defined in SFFAS 54, paragraph 2) within a consolidation entity or between two or more consolidation entities (as defined in SFFAS 47).

How we see it

Federal entities should carefully evaluate their leases to determine whether they meet the definition of an intragovernmental lease and to make sure they identify the lessee and lessor appropriately in each contract or agreement.

SFFAS 54 does not require lessees (and lessors) to recognize lease assets or lease liabilities (or lease receivables and unearned revenue) for intragovernmental leases, but it requires certain disclosures by lessees and lessors that have intragovernmental leases.

Lease assets or liabilities (or lease receivables and unearned revenue) do not need to be recognized for intragovernmental leases, but certain disclosures are required.

Lessees recognize lease payments, including lease-related operating costs, for intragovernmental leases as an expense in accordance with the contract's payment provisions, unless the payments are made before the reporting period to which they relate or are unpaid at the end of the reporting period to which they relate (in which case they are recognized as an asset or a liability, respectively).

Rent increases and decreases, lease incentives, lease concessions and initial direct lease costs are recognized as incurred. Any leasehold improvements that are placed in service at or after the beginning of the lease term should be amortized over the useful life of the leasehold improvement, but not longer than the expected lease term.

Lessees are required to disclose a general description of their significant intragovernmental leasing arrangements, as well as annual lease expense in total and by major underlying asset.

Lessors account for intragovernmental leases in a similar manner. Intragovernmental lease receipts, including amounts received for lease-related operating costs, are recognized as revenue based on the provisions of the contract, unless the payments are received before the reporting period to which they relate or are unpaid at the end of the reporting period to which they relate (in which case they are recognized as a liability or an asset, respectively).

Rent increases and decreases, lease incentives, lease concessions and initial direct lease costs are recognized as incurred. Any lessor improvements are considered components of the leased property and are capitalized as PP&E and depreciated over the useful life of the improvement.

Lessors are required to disclose a general description of their significant intragovernmental leases, as well as future lease payments to be received for each of the next five fiscal years, and in subsequent five-year increments, through the end of the lease term.

Short-term leases

A short-term lease is a non-intragovernmental lease with a lease term of 24 months or less. Lessees recognize short-term lease payments as an expense as incurred, unless the payments are made before the reporting period to which they relate (in which case they are recognized as an asset) or are unpaid at the end of the reporting period to which they relate (in which case they are recognized as a liability). Lessees (and lessors) are not required to recognize lease assets or lease liabilities (or lease receivables and unearned revenue) for short-term leases. Rent increases and decreases, lease incentives and lease concessions are recognized as incurred.

Lessors account for short-term leases in a similar manner. Short-term lease receipts are recognized as revenue as received, unless the payments are received before the reporting period to which they relate (in which case they are recognized as a liability) or are unpaid at the end of the reporting period to which they relate (in which case they are recognized as an asset). Rent increases and decreases, lease incentives, and lease concessions are recognized as incurred.

Contracts or agreements that transfer ownership

A contract or agreement that transfers ownership of the underlying asset to the lessee by the end of the contract term are excluded from the scope of the standard. These transactions may not contain options to terminate the contract, but they may contain availability of funds or cancellation clauses that are not probable of being exercised. Lessees account for this type of transaction as a purchase of the asset, and lessors account for this type of transaction as a financed sale of the asset, in accordance with SFFAS 6, paragraph 26A.

Lease term

The lease term is defined in SFFAS 54 as the noncancelable period plus certain periods that contain options to extend or terminate the lease. The noncancelable period is the shorter of (1) the period identified in the lease preceding any option to extend the lease or (2) the period identified in the lease preceding the first termination option.

Lessees and lessors need to follow similar criteria to determine the periods in the lease term other than the noncancelable period. Lessors and lessees consider all options in chronological order to determine the lease term.

Both parties include in the lease term the periods related to their own option to extend the lease if it is probable that they will exercise that option, as well as periods following their own option to terminate the lease if it is probable that they will not exercise that option.

Each party also includes in the lease term periods in which the other party has a right to extend the lease if there is significant evidence based on all relevant factors that the other party will exercise that option. Finally, each party includes in the lease term periods following the other party's right to terminate if there is significant evidence that the other party will not exercise that option.

How we see it

When determining the lease term, lessees and lessors need to consider four different types of extensions to the noncancelable period of the lease: their own option to extend, their own option to terminate, the other party's option to extend and the other party's option to terminate. The threshold to include an extension in the lease term varies depending on whether an entity is evaluating its own options or the other party's options in the lease.

When the lessee or lessor is evaluating its own option to extend or terminate the lease, the level of probability is at the "probable" threshold. In Technical Release 20: Implementation Guidance for Leases (TR 20), paragraph 16, the FASAB defines probable as a "greater than 50% probability (i.e., more likely than not)."

However, when the lessee or lessor is evaluating the other party's options to extend or terminate the lease, the level of probability should be based on "significant evidence based on all relevant factors." In SFFAS 54, Appendix A: Basis for Conclusions, the FASAB stated that this threshold is higher than "probable" and is similar to "reasonably certain."

Federal entities will need to apply judgment to determine the appropriate lease term, especially when the other party to the lease has options to extend or terminate the lease.

Any periods in which both parties have an option to terminate the lease without permission from the other, or periods in which both parties must agree to extend the lease, are considered cancelable and are, therefore, excluded from the lease term. Additionally, if the lease gives the lessee the option to purchase the underlying asset during the lease term, the period after the date at which the option is probable of being exercised is excluded from the lease term.

Conversely, if either party has options to terminate a lease due to the other party's non-performance under the lease, this is not considered an option to terminate the lease for purposes of determining the lease term. Additionally, availability of funds or appropriation of funds clauses are not considered options to terminate the lease unless it is probable that the clause will be exercised.

Lessors and lessees assess the lease term at the commencement of the lease. The lease term is only reassessed if one or more of the following events occur:

- ▶ An option that was previously determined not probable or not reasonably certain to be exercised, as applicable, is exercised by either party
- ▶ An option that was previously determined probable or reasonably certain to be exercised, as applicable, is not exercised by either party
- ▶ An event that requires an extension or termination of the lease occurs
- ▶ A lease modification changes the noncancelable period and results in a remeasurement (refer to the section on *Lease terminations and modifications* below).

Lessee accounting

For leases that meet the criteria under SFFAS 54 for lease recognition, lessees record a lease liability and a lease asset at the commencement of the lease term. We believe the commencement date is generally the date on which the lessor makes an underlying asset (i.e., the PP&E that is subject to the lease) available for use by the lessee. This may be a different date than the date stipulated in the lease agreement.

Lease liability – initial recognition

The diagram below illustrates the inputs federal entities need to initially calculate the lease liability:



To determine the lease payments that will be discounted for each lease, entities consider all of the following types of payments, if required in the lease agreement or contract:

Lease payments							
Fixed payments	Variable payments based on an index or rate	Variable payments that are fixed in-substance	Probable amounts owed by the lessee under residual value guarantees	Exercise price of a lessee's purchase option for which exercise is probable	Payments for penalties for terminating the lease if lease term reflects termination	Other payments to the lessor that are probable of being required	Less: lease incentives receivable from the lessor after commencement of the lease term

Variable payments based on future performance of the lessee or usage of the underlying asset are recognized as an expense in the reporting period in which the payments are incurred. However, some lease agreements include payment that are described as variable or may appear to be variable but are in-substance fixed payments because the contract terms require the payment of a fixed amount that is unavoidable. Such payments are included in the lease payments at lease commencement.

Additionally, variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate) are included in the lease payments and are measured using the prevailing index or rate at the measurement date (e.g., lease commencement date for initial

measurement). While there is measurement uncertainty associated with changes to index or rate-based payments, the payments meet the definition of a liability because they are unavoidable.

The lease payments are discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, the lessee generally uses the Department of the Treasury borrowing rate for marketable securities with maturity similar to the term of the lease. When choosing the appropriate interest rate, entities should use the maturity date that is closest to the lease term. Entities can round up or down or calculate the rate for the lease term based on the closest maturities, but the method used needs to be consistent each period. However, if the lease term is longer than the longest available Treasury rate, entities are required to use the longest Treasury maturity (and may not extrapolate past that date).

Lease liability – subsequent recognition

Amortization of the discount on the lease liability is recognized as interest expense. Payments made to the lessor are allocated first to the accrued interest liability and then to the lease liability.

For all leases, lessees need to have processes in place to identify modifications and reassessment or remeasurement events. Reassessment and remeasurement events can materially affect the measurement of the lease liability.

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remeasurement
events.

Lessees are required to remeasure the lease liability if one or more of the following changes have occurred:

Reassessment criteria	A change in lease term that is not a modification
	A change in the likelihood of a residual value guarantee being required to be paid
	A change in the likelihood of a purchase option being exercised
	A change in estimated amounts for payments already included in the liability, except for variable payments that depend on an index or rate
	A change in the interest rate the lessor charges the lessee
	A contingency related to variable payments over the remainder of the lease term is resolved such that the payments are in-substance fixed payments

If a lease liability is remeasured, it is adjusted for any change in index or rate for variable payments that depend on an index or rate if the change significantly affects the amount of the liability. However, a change in the index or rate for those payments does not require reassessment of the lease liability.

At a remeasurement event, an entity also updates the discount rate if there is either a change in the lease term that is not a modification or a change in the likelihood of a purchase option being exercised and the changes, individually or in the aggregate, are expected to significantly affect the amount of the lease liability. The new discount rate is based on the rate the lessor charges the lessee at the time of the remeasurement. If that rate is not stated, the interest rate on marketable Treasury securities with maturity similar to the term of the lease at the time of the remeasurement is used. If an entity has used the Treasury rate as its discount rate, a change in that rate alone does not require reassessment of the lease liability.

Lease asset – initial recognition

The right-to-use lease asset (or lease asset) is initially measured as:



Lease asset – subsequent recognition

Lease assets are amortized in a systematic and rational manner and are reported as amortization expense. The amortization occurs over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the lessee has determined is probable of being exercised. In that case, the asset is generally amortized over the useful life of the underlying asset.

If a lease liability is remeasured, the corresponding lease asset generally is adjusted by the same amount (refer to the *Lease liability – subsequent recognition* section above). However, if the adjustment would result in a carrying value of the lease asset of zero or less, the remaining amount should be reported in the statement of net cost as a gain.

Additionally, lease assets should be evaluated for impairment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

Disclosures

Under SFFAS 54, lessees are required to disclose the following:

- ▶ A general description of their leasing arrangements that includes a description of variable lease payments excluded from the lease liability, including the conditions on which the amount is determined
- ▶ The total amount of lease assets and accumulated amortization on the balance sheet separate from other PP&E assets
- ▶ The amount of expense recognized during the period for any variable lease payments not previously included in the lease liability
- ▶ A schedule of future lease payments included in the lease liability. The schedule separates principal and interest and discloses payments for each of the next five years and in five-year increments subsequently
- ▶ The amount of annual lease expense and the discount rate used to calculate the lease liability

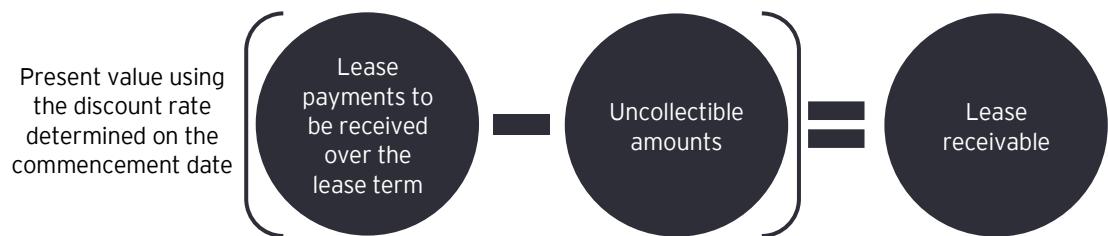
These disclosure requirements do not apply to short-term leases, intragovernmental leases, or contracts or agreements that transfer ownership.

Lessor accounting

Lessors that have lease agreements that meet the requirements under SFFAS 54 for lease recognition record a lease receivable and unearned revenue at the commencement of the lease term. We believe the commencement date is generally the date on which the lessor makes an underlying asset (i.e., the PP&E that is subject to the lease) available for use by the lessee. This may be a different date than the date stipulated in the lease agreement. Any initial direct lease costs incurred by the lessor should be reported as an expense in the period incurred.

Lease receivable – initial recognition

The diagram below illustrates the inputs needed to initially calculate the lease receivable:



To determine the lease payments receivable that will be discounted for each lease, entities are required to consider all of the following:

Lease payments				
Fixed payments	Variable payments based on an index or rate	Variable payments that are fixed in-substance	Residual value guarantees that are fixed payments in-substance	Less: lease incentives payable to the lessee after the commencement date

Variable payments based on future performance of the lessee or usage of the underlying asset are recognized as revenue in the reporting period to which the payments relate. However, some lease agreements include payments that are described as variable or may appear to be variable but are in-substance fixed payments because the contract terms require the payment of a fixed amount that is unavoidable. Such payments are included in the lease receivable at lease commencement.

Additionally, variable lease payments that depend on an index or a rate are included in the lease payments and measured using the prevailing index or rate at the measurement date (e.g., lease commencement date for initial measurement). While there is measurement uncertainty associated with changes to index or rate-based payments, the payments meet the definition of a receivable because they are unavoidable.

Residual value guarantees that are not fixed in-substance are recognized as receivable and revenue when the guarantee payment is required and the amount can be reasonably estimated. Payments for purchase options or lease terminations are recognized as receivables and revenue when the option is exercised.

The lease payments are discounted using the interest rate the lessor charges the lessee. If the interest rate is not stated in the lease, the lessor generally uses the Department of the Treasury borrowing rate for marketable securities with maturity similar to the term of the lease. When choosing the appropriate interest rate, entities should use the nearest maturity date to the lease term. Entities can round up or down or calculate the rate for the lease term based on the closest maturities, but the method used needs to be consistent each period. However, if the lease term is longer than the longest available Treasury rate, entities are required to use the longest Treasury maturity (and may not extrapolate past that date).

Lease receivable – subsequent recognition

Amortization of the discount on the lease receivable is recognized as interest revenue. Payments received are allocated first to the accrued interest receivable and then to the lease receivable.

For all leases, lessors need to have processes in place to identify modifications and reassessment or remeasurement events. Reassessment and remeasurement events can materially affect the measurement of the lease receivable.

Lessors are required to remeasure the lease receivable if one or more of the following changes have occurred:

Reassessment criteria	A change in lease term that is not a modification
	A change in the interest rate that the lessor charges the lessee
	A contingency related to variable payments to be received over the remaining lease term that is resolved such that the payments are in-substance fixed payments

If a lease receivable is remeasured, it should be adjusted for any change in index or rate for variable payments that depend on an index or rate if the change significantly affects the amount of the receivable. However, a change in the index or rate for those payments does not require reassessment of the lease receivable.

If a lessee needs to return the leased asset in its original condition or better, the lessor would not depreciate the asset during the lease term.

At a remeasurement event, entities also update the discount rate if there is either a change in the lease term that is not a modification or a change in the interest rate the lessor charges the lessee and the changes, individually or in the aggregate, are expected to significantly affect the amount of the lease liability. The new discount rate is based on the rate the lessor charges the lessee at the time of the remeasurement. If that rate is not stated, the interest rate on marketable Treasury securities with a similar maturity to the term of the lease at the time of the remeasurement is used.

Unearned revenue

The lessor measures the unearned revenue as the sum of the amount of the initial measurement of the lease receivable and any payments received from the lessee at or before the commencement of the lease term that relate to future periods. Lessors would subtract the amount of any lease incentives they have paid to or on behalf of the lessee.

Unearned revenue is amortized in a systematic and rational manner and is reported as earned revenue.

If a lease receivable is remeasured, the corresponding unearned revenue generally is adjusted by the same amount (refer to the *Lease receivable – subsequent recognition* section above). However, if the adjustment would result in a carrying value of the unearned revenue of zero or less, the remaining amount should be reported in the statement of net cost as a loss.

Underlying asset

Lessors generally do not derecognize the leased asset but continue applying other applicable guidance to the underlying asset, including recognizing any applicable depreciation expense or impairments. However, if a lessee needs to return the leased asset in its original or enhanced condition, the lessor would not depreciate the asset during the lease term.

Disclosures

Under SFFAS 54, lessors are required to disclose the following:

- A general description of their leasing arrangements that includes a description of variable lease payments excluded from the lease receivable, including the conditions on which the amount is determined

- ▶ The carrying amount of leased assets by major class of assets and accumulated amortization on the balance sheet separate from other PP&E assets
- ▶ The total amount of revenue recognized in the period from leases
- ▶ The amount of revenue recognized during the period for any variable lease payments or other amounts not previously included in the lease receivable
- ▶ A schedule of future lease payments included in the lease receivable if the entity's principal ongoing operations consist of leasing assets in non-intragovernmental leases. The schedule separates principal and interest and discloses payments for each of the next five years and in five-year increments subsequently.

The disclosure requirements do not apply to short-term leases, intragovernmental leases, or contracts or agreements that transfer ownership.

Other considerations

Contracts or agreements with multiple components

Contracts or agreements may contain both a lease component and a non-lease component, which generally would be accounted for separately. Contracts or agreements also may contain multiple underlying assets that have different lease terms. In this case, each underlying asset generally would be accounted for as a separate lease.

In either scenario, entities allocate the price to the components by first using any prices for individual components included in the contract or agreement if those prices are not unreasonable. To determine whether a price is reasonable, entities consider any observable pricing, such as the standalone price,² and any discounts.

If the contract or agreement does not include pricing, or if those prices appear to be unreasonable, the entity determines the best estimate for allocating the price to each component, maximizing the use of observable information.

The standard provides an expedient if it is not practicable to determine the best estimate maximizing the use of observable information for price allocation for some or all of the components in a lease. If that is the case, entities account for those components as a single lease. The accounting is based on the primary lease component in the combined lease.

Contract or agreement combinations

Contracts or agreements that are entered into at or near the same time with the same counterparty are combined if they were either negotiated as a package with a single objective or if the amount of consideration paid in one contract depends on the price or performance of the other contract.

If two or more contracts or agreements are combined, the entity should consider the guidance on contracts or agreements with multiple components discussed above.

Lease terminations and modifications

Contracts or agreements may be modified during the lease term, including changing the price or lease term, and adding or removing underlying assets. Changes are considered modifications unless the lessee's right to use an underlying asset decreases (e.g., the lease term is shortened, the number of underlying assets is reduced), in which case it is a partial or full lease termination. Modifications do not include exercising options that existed in the contract, such as extension or termination options that were in the original contract.

Terminations

If a lease is terminated, the lessee and lessor reduce the carrying value of the lease liability and lease asset or lease receivable and unearned revenue, respectively, and recognize a gain or loss in the statement of net cost.

If a lease is terminated by the lessee purchasing the underlying asset, the lessee does not derecognize the lease asset, and instead reclassifies it to the appropriate class of owned asset. In this scenario, the lessor derecognizes the underlying asset and includes any resulting gain or loss as part of the gain or loss of the lease in the statement of net cost.

Modifications

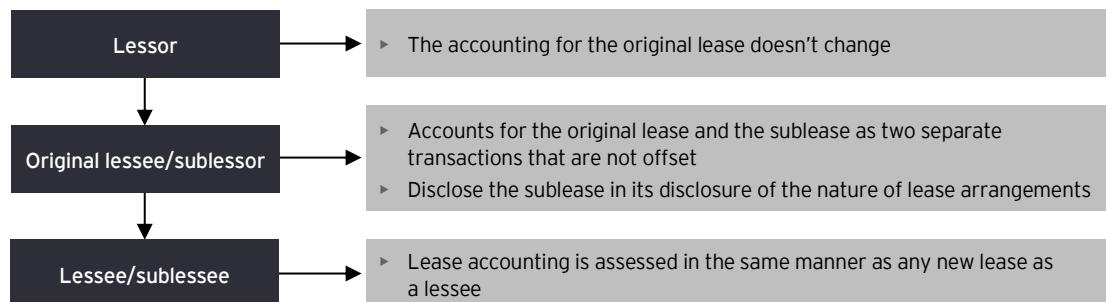
A modification is accounted for as a separate lease if (1) it adds one or more underlying assets that were not included in the original lease and (2) the increase in lease payments for the additional lease asset is not unreasonable. To determine whether the payments are unreasonable, entities should first estimate using observable information, including the standalone price of the underlying asset.

If both conditions are not present, the modification is accounted for by remeasuring the lease liability (for the lessee) and lease receivable (for the lessor). The lease asset (for the lessee) and unearned revenue (for the lessor) should also be adjusted by the difference between the remeasured liability and receivable, respectively.

However, if the change reduces the carrying value of the lease asset for a lessee to zero, any remaining amount should be reported in the statement of net cost as a gain. If the change for the lessor relates to payments for the current period, the change should be recognized as revenue or expense for the current period.

Subleases

Lessees often enter into arrangements to sublease an underlying asset to a third party. In these arrangements, one party acts as both the lessee and lessor of the same underlying asset. The original lease is often referred to as a head lease, the original lessee is often referred to as an intermediate lessor or sublessor, and the ultimate lessee is often referred to as the sublessee.



Sale-leaseback and lease-leaseback transactions

Sale and leaseback accounting applies to both the seller-lessee and the buyer-lessor. A sale and leaseback transaction involves the transfer of an asset by an entity (the seller-lessee) to another entity and is required to include a transaction that qualifies as a sale in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Under this guidance, a sale of property, plant and equipment is an exchange transaction because each party receives and sacrifices something of value. A sale-leaseback transaction that does not include a transaction that qualifies as a sale should be accounted for as a borrowing by both the seller-lessee and the buyer-lessor.

The sale and lease components are accounted for as two separate transactions. The difference between the carrying value of the underlying asset that was sold and the net proceeds from the sale are recorded as unearned revenue or deferred expense and are recognized in the statement of net cost in a systematic and rational matter over the term of the lease. If the lease qualifies as a short-term lease, the difference is recognized immediately.

Seller-lessees and buyer-lessors are required to make the disclosures required of lessees and lessors, respectively, as discussed above. Seller-lessees should also disclose the terms and conditions of sale-leaseback transactions.

Lease-leaseback accounting applies to both parties involved in the transaction, which includes an asset that is leased by one party to another and then leased back to the first party. The leaseback may include additional assets or only a portion of the original asset. Both parties present the lease-leaseback as a net transaction in the financial statements, but they are required to disclose the amounts of the lease and the leaseback separately.

Transition considerations

The guidance is effective for reporting periods beginning after 30 September 2023 and applies to all leases that are unexpired at the beginning of the reporting period in which the standard is implemented (i.e., 1 October 2023). Entities should use the facts and circumstances that exist at the beginning of the reporting period to determine appropriate measurement and recognition. This means that, for existing leases on 1 October 2023, the beginning of the lease term is 1 October 2023, and the lease liability and asset or lease receivable and unearned revenue are calculated based on the remaining lease term and lease payments as of that date.

If the remaining term of an existing lease meets the definition of a short-term lease (i.e., it is less than 24 months), entities apply the short-term lease guidance.

The guidance is applied prospectively in accordance with paragraph 13 of SFFAS 21, *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*. No adjustments are made to any previously reported amounts.

The FASAB has issued SFFAS 62, *Transitional Amendment to SFFAS 54*, to delay the implementation of SFFAS 54 for contracts that contain both a lease component and a non-lease component (frequently called embedded leases) until periods beginning after 30 September 2026. This amendment applies only to contracts that meet the following criteria:

- ▶ The contract or agreement contains non-lease component(s) and may contain lease component(s).
- ▶ The purpose of the contract or agreement is primarily attributable to the non-lease component(s).

Entities may apply SFFAS 54 to embedded leases before 30 September 2026 and select different accommodation periods for different groupings of contracts or agreements. Contracts that meet these criteria are accounted for as non-leases in the scope of other applicable guidance for their remaining term. After the accommodation period ends, the entity accounts for new contracts or modifications that aren't accounted for as separate leases in accordance with SFFAS 54.

SFFAS 62 delayed the implementation of SFFAS 54 for embedded leases until periods beginning after 30 September 2026.

Entities will need to disclose their election of this accommodation for embedded leases during the reporting periods covered by the accommodation period and the reporting period immediately following the accommodation period. All other lease agreements that are not embedded leases and are unexpired as of 1 October 2023 are required to be accounted for under SFFAS 54 for fiscal years beginning on 1 October 2023.

Endnotes:

- ¹ SFFAS 58, *Deferral of the Effective Date of SFFAS 54, SFFAS 60, Omnibus Amendments 2021: Leases-Related Topics, SFFAS 61, Omnibus Amendments 2023, Leases-Related Topics II*, and SFFAS 62, *Transitional Amendment to SFFAS 54*
- ² The standalone price is the amount that would be paid or received if the same or similar assets were leased or contracted for individually.