FTB 88-1 Status Page

Issues Relating to Accounting for Leases:

• Time Pattern of the Physical Use of the Property in an Operating Lease
• Lease Incentives in an Operating Lease
• Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor
• Money-Over-Money Lease Transactions
• Wrap Lease Transactions

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Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116
FTB 88-1: Issues Relating to Accounting for Leases:

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TIME PATTERN OF THE PHYSICAL USE OF THE PROPERTY IN AN OPERATING LEASE

References:

FASB Statement No. 13, *Accounting for Leases*, paragraph 15
FASB Technical Bulletin No. 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*

Question 1

1. A lease agreement may include scheduled rent increases designed to accommodate the lessee's projected physical use of the property. For example, rents may escalate in contemplation of the lessee's physical use of the property even though the lessee takes possession of or controls the physical use of the property at the inception of the lease, or rents may escalate under a master lease agreement as the lessee adds additional equipment to the leased property or requires additional space or capacity (hereinafter referred to as additional leased property). For operating leases that include those provisions, how should the rental payment obligation be recognized by the lessee and lessor in accordance with paragraph 15 of Statement 13 and Technical Bulletin 85-3?
Response

2. Both the lessee and the lessor should recognize the lease payments under Statement 13 and Technical Bulletin 85-3 as follows:

a. If rents escalate in contemplation of the lessee's physical use of the leased property, including equipment, but the lessee takes possession of or controls the physical use of the property at the beginning of the lease term, all rental payments, including the escalated rents, should be recognized as rental expense or rental revenue on a straight-line basis in accordance with paragraph 15 of Statement 13 and Technical Bulletin 85-3 starting with the beginning of the lease term.

b. If rents escalate under a master lease agreement because the lessee gains access to and control over additional leased property at the time of the escalation, the escalated rents should be considered rental expense or rental revenue attributable to the leased property and recognized in proportion to the additional leased property in the years that the lessee has control over the use of the additional leased property. The amount of rental expense or rental revenue attributed to the additional leased property should be proportionate to the relative fair value of the additional property, as determined at the inception of the lease, in the applicable time periods during which the lessee controls its use.

Background

3. This issue involves how to apply Technical Bulletin 85-3 to lease agreements that escalate rents in contemplation of the lessee's projected use of the property. The issue arises from paragraph 2 of Technical Bulletin 85-3, which states "... scheduled rent increases, which are included in minimum lease payments under Statement 13, should be recognized by lessors and lessees on a straight-line basis over the lease term unless another systematic and rational allocation basis is more representative of the time pattern in which the leased property is physically employed" (emphasis added).

4. This Technical Bulletin considers the right to control the use of the leased property as the equivalent of physical use. When the lessee controls the use of the leased property, recognition of rental expense or rental revenue should not be affected by the extent to which the lessee utilizes that property.

5. This Technical Bulletin makes a distinction between agreements that give the lessee the right to control the use of the leased property at the beginning of the lease term and those that do not. Escalated rents under agreements that give the lessee the right to control the use of the entire leased property at the beginning of the lease term should be included in the minimum lease payments and recognized on a straight-line basis over the lease term. When the agreement provides that the lessee gains control over additional leased property, rental expense or rental
revenue should be recognized based on the relative fair value of the additional property leased and the period during which the lessee has the right to control the use of the additional property. This is the intent of Statement 13 and Technical Bulletin 85-3.

LEASE INCENTIVES IN AN OPERATING LEASE

References:

FASB Statement No. 13, Accounting for Leases, paragraphs 15,19, and 35–40
FASB Technical Bulletin No. 79-15, Accounting for Loss on a Sublease Not Involving the Disposal of a Segment
FASB Technical Bulletin No. 85-3, Accounting for Operating Leases with Scheduled Rent Increases

Question 2

6. An operating lease agreement with a new lessor may include incentives for the lessee to sign the lease, such as an up-front cash payment to the lessee, payment of costs for the lessee (such as moving expenses), or the assumption by the lessor of the lessee's preexisting lease with a third party. For operating leases that include such incentives, should lessees or lessors ever recognize those incentives as rental expense or rental revenue other than on a straight-line basis in accordance with paragraph 15 of Statement 13 and Technical Bulletin 85-3?

Response

7. Payments made to or on behalf of the lessee represent incentives that should be considered reductions of rental expense by the lessee and reductions of rental revenue by the lessor over the term of the new lease. Similarly, losses incurred by the lessor as a result of assuming a lessee's preexisting lease with a third party should be considered an incentive by both the lessor and the lessee. Incentives should be recognized on a straight-line basis over the term of the new lease in accordance with paragraph 15 of Statement 13, Technical Bulletin 85-3, and paragraphs 1-5 above.

8. The lessee's immediate recognition of expenses or losses, such as moving expenses, losses on subleases, or the write-off of abandoned leasehold improvements, is not changed by this Technical Bulletin. Rather, this Technical Bulletin addresses the question of when to recognize the incentive related to the new lessor's assumption of that expense or loss. The new lessor and the lessee should independently estimate any loss attributable to the assumption of a preexisting lease with a third party. For example, the lessee's estimate of the incentive could be based on a comparison of the new lease with the market rental rate available for similar lease property or the market rental rate from the same lessor without the lease assumption, and the lessor should
estimate any loss based on the total remaining costs reduced by the expected benefits from the sublease or use of the assumed leased property.

9. For example, in conjunction with an operating lease of property for eight years, the lessor assumes the lessee's preexisting lease with a third party that has four years remaining. Assume that the old lease payment is $800 per year and the new lease payment is $1200 per year. Also assume that the lessor estimates the loss on the assumed lease of $1,000 over its remaining term based on the ability to sublease the property for $550 per year. The lessee estimates the incentive as $960 based on a comparison of the preexisting lease rate to current rates for similar property. The accounting for that incentive is as follows:

**Lessor Accounting**

At inception:

<table>
<thead>
<tr>
<th>Incentive to lessee</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability on sublease assumed</td>
<td>1,000</td>
</tr>
<tr>
<td>To record deferred cost and liability related to loss on assumption of remaining lease</td>
<td></td>
</tr>
</tbody>
</table>

Recurring journal entries in years 1–4:

| Liability on sublease assumed (1,000/4 years) | 250 |
| Sublease expense | 550 |
| Cash | 800 |
| To record cash payment on sublease assumed and amortization of the liability on the sublease assumed | |
| Cash | 550 |
| Sublease revenue | 550 |
| To record cash received from sublease of the property | |

Recurring journal entries in years 1–8:

| Cash | 1,200 |
| Rental revenue | 1,075 |
| Incentive to lessee (1,000 / 8 years) | 125 |
| To record cash received on new lease and amortization of incentive over new lease term | |

**Lessee Accounting**

At inception:

Loss on sublease assumed by lessor | 960 |
Incentive from lessor 960
To record loss on sublease assumed in conjunction with new lease agreement

Recurring journal entries in years 1–8:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease expense</td>
<td>1,080</td>
</tr>
<tr>
<td>Incentive from lessor (960 / 8 years)</td>
<td>120</td>
</tr>
<tr>
<td>Cash</td>
<td>1,200</td>
</tr>
<tr>
<td>To record cash payment on new lease and amortization of incentive over the term of the new lease.</td>
<td></td>
</tr>
</tbody>
</table>

Background

10. Some have suggested that incentives paid to or incurred on behalf of the lessee by the lessor are not part of the normal lessee-lessee relationship and should be recognized in income by the lessee in the period paid or incurred by the lessor. This Technical Bulletin views those incentives as an inseparable part of the new lease agreement that must be recognized as reductions to rental expense and rental revenue on a straight-line basis over the term of the new lease in accordance with paragraph 15 of Statement 13, Technical Bulletin 85-3, and paragraph 2 above.

APPLICABILITY OF LEVERAGED LEASE ACCOUNTING TO EXISTING ASSETS OF THE LESSOR

References:

FASB Statement No. 13, Accounting for Leases, paragraphs 6 and 42–46
FASB Statement No. 27, Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases, paragraph 7

Question 3

11. Paragraph 6(b)(ii) of Statement 13, as amended, requires that the cost or carrying amount, if different, and the fair value of the asset be the same at the inception of the lease for it to be classified as a direct financing lease. Paragraph 42(a) of Statement 13 requires that a lease qualify as a direct financing lease for the lessor to classify that lease as a leveraged lease. How does a lessor apply those requirements to leasing an asset the lessor has owned and had previously placed in service?
Response

12. Paragraphs 6(b)(ii) and 42(a) of Statement 13, as amended, should be applied literally. Although the carrying amount (cost less accumulated depreciation) of an asset previously placed in service may not be significantly different from its fair value, the two amounts will not likely be the same. Therefore, leveraged lease accounting will not be appropriate, generally, other than when an asset to be leased is acquired by the lessor. If the carrying amount of an existing asset of the lessor before any related write-down is equal to fair value as established in transactions by unrelated third parties, that asset could qualify for leveraged lease accounting. However, any write-down to the existing asset's fair value in contemplation of leasing the asset precludes the transaction from leveraged lease accounting.

Background

13. Paragraphs 6(b)(ii) and 42(a) of Statement 13, as amended, state:

*Direct financing leases.* Leases other than leveraged leases that do not give rise to manufacturer's or dealer's profit (or loss) to the lessor but that meet one or more of the criteria in paragraph 7 and both of the criteria in paragraph 8. In such leases, the cost or carrying amount, if different, and fair value of the leased property are the same at the inception of the lease.

Except for the exclusion of leveraged leases from the definition of a direct financing lease as set forth in paragraph 6(b)(ii), it otherwise meets that definition. Leases that meet the definition of sales-type leases set forth in paragraph 6(b)(i) shall not be accounted for as leveraged leases but shall be accounted for as prescribed in paragraph 17.

14. The FASB has received inquiries about the applicability of leveraged lease accounting to an existing asset of a lessor and whether the requirement in paragraphs 6(b)(ii), as amended, and 42(a) that the carrying amount of a leased asset must equal its fair value at the inception of the lease to qualify as a leveraged lease applies literally to a lease of a lessor's existing asset. Some may have interpreted that requirement to allow leveraged lease accounting for an asset whose carrying amount was not significantly different from its fair value or whose carrying amount after a recent write-down equaled its fair value. This Technical Bulletin reaffirms the requirement that the carrying amount of an existing asset before any write-down must equal its fair value, as that requirement is intended to be applied literally.

15. Regulated utilities have argued that the carrying amounts of certain of their assets always equal the fair value based on a utility's ability to recover that cost in conjunction with a franchise to sell a related service in a specified area. That argument is not valid when considering the value of the asset to a third-party purchaser who does not own that franchise, and it is not consistent with paragraphs 6(b)(ii) and 42(a) of Statement 13 as amended, or this Technical Bulletin.
MONEY-OVER-MONEY LEASE TRANSACTIONS

References:

FASB Statement No. 13, Accounting for Leases, paragraphs 6–8 and 41–45
FASB Technical Bulletin No. 85-2, Accounting for Collateralized Mortgage Obligations (CMOs)
FASB Technical Bulletin No. 86-2, Accounting for an Interest in the Residual Value of a Leased Asset: Acquired by a Third Party or Retained by a Lessor That Sells the Related Minimum Rental Payments, paragraph 21

Question 4

16. An enterprise manufactures or purchases an asset, leases the asset to a lessee, and obtains nonrecourse financing in excess of the asset's cost using the leased asset and the future lease rentals as collateral (commonly referred to as a money-over-money lease transaction). Should the enterprise ever recognize any of the amount by which the cash received plus the present value of any estimated residual retained exceeds the carrying amount of the leased asset as profit on that transaction at the beginning of the lease term? If not, how should the enterprise account for the transaction?

Response

17. Other than the recognition of manufacturer's or dealer's profit in a sales-type lease, an enterprise should never recognize as income the proceeds from the borrowing in a money-over-money lease transaction at the beginning of the lease term. The enterprise should account for that transaction as (a) the manufacture or purchase of an asset, (b) the leasing of the asset under an operating, direct financing, or sales-type lease as required by paragraphs 6-8 of Statement 13, as amended, and (c) the borrowing of funds. The asset (if an operating lease) or the lease receivable (if a direct financing or sales-type lease) and the liability for the nonrecourse financing should not be offset in the statement of financial position unless a right of setoff exists.

Background

18. The FASB has received several inquiries about how paragraph 21 of Technical Bulletin 86-2 applies to a transaction in which the lease receivable used as collateral and the related nonrecourse debt are offset because the transaction is viewed as a sale. Apparently, some justify sales accounting for that transaction by applying the money-over-money lease provisions of the June 20, 1980 AICPA Issues Paper, Accounting by Lease Brokers (hereinafter referred to as the Issues Paper). Paragraph 11 of the Issues Paper defines a money-over-money lease transaction
as a transaction "in which the lease broker purchases an asset, obtains a lessee, and sells or assigns, on a nonrecourse basis, his right to receive rentals for the leased asset to unrelated third party financers for an amount that exceeds his investment in the leased asset." The advisory conclusions in paragraphs 60 and 61 of the Issues Paper suggest that in a money-over-money lease transaction a lease broker may recognize income at the beginning of the lease term for the cash received in excess of the carrying amount of the leased asset (and the residual value retained) provided that the following criteria are met:

a. The financing is nonrecourse to the lease broker.
b. The lease broker receives more cash (excluding the amount recognized based on the residual value share) from third-party financers or lessees (both on a nonrecourse basis) than the lease broker paid for the leased asset.
c. All parties to the transaction are arranged for at the beginning of the initial lease term.
d. The leased asset is acquired at the same time the transaction is arranged.

19. Those criteria do not warrant an exemption to the traditional presentation of nonrecourse debt and lease income recognition. However, those and other nonrecourse debt issues may be reconsidered as part of the Board's project on financial instruments and off-balance-sheet financing.

20. The money-over-money lease transaction described in this Technical Bulletin is not structured to meet the requirements of Technical Bulletin 85-2, which allows a collateralized borrowing on a nonrecourse basis to be accounted for as the sale of the collateral. Those who support sale accounting for nonrecourse debt in lease transactions (as described in the advisory conclusions in the Issues Paper) suggest that the economics of the nonrecourse financing collateralized by the lease receivable justifies sales accounting. The economics of nonrecourse financing in leasing transactions was considered during the deliberations on Statement 13. The Board concluded that some accelerated recognition of lease income and modification of the presentation of the nonrecourse debt and lease receivable in a statement of financial position were appropriate for leasing transactions that meet all of the criteria for leveraged leases but determined that lease accounting should not be modified in any other circumstance.

WRAP LEASE TRANSACTIONS

References:

FASB Statement No. 13, Accounting for Leases, paragraphs 6, 32–36, and 107
FASB Statement No. 28, Accounting for Sales with Leasebacks
FASB Statement No. 66, Accounting for Sales of Real Estate
FASB Statement No. 98, Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases
Question 5

21. An enterprise purchases an asset, leases the asset to a lessee, obtains nonrecourse financing using the lease rentals or the lease rentals and the asset as collateral, sells the asset subject to the lease and the nonrecourse debt to a third-party investor, and leases the asset back while remaining the substantive principal lessor under the original lease (commonly referred to as a wrap lease transaction). Other than as required by Statement 13, as amended by Statements 28, 66, and 98, should an enterprise ever recognize any profit on the wrap lease transaction at its inception? If not, how should the enterprise account for the transaction?

Response

22. If the property involved is real estate, the provisions of Statement 98 apply to the sale-leaseback transaction. If the property involved is not real estate, the enterprise should account for the transaction as a sale-leaseback transaction in accordance with paragraphs 32–34 of Statement 13, as amended, and the lease to the end user should be accounted for as a sublease in accordance with paragraph 36 of Statement 13. Under Statement 13 the asset should be removed from the books of the original enterprise, the leaseback should be classified in accordance with paragraph 6 of Statement 13, and any gain on the transaction should be recognized or deferred and amortized in accordance with paragraph 33 of Statement 13, as amended. The enterprise would also reflect the retained residual interest, gross sublease receivable, nonrecourse third-party debt, the leaseback obligation, and the note receivable from the investor in the statement of financial position. As in accounting for a money-over-money lease transaction (refer to paragraph 17 of this Technical Bulletin), the sublease asset and the related nonrecourse debt should not be offset in the statement of financial position unless a right of setoff exists.

Background

23. The Emerging Issues Task Force discussed the accounting for wrap lease transactions in EITF Issue No. 87-7, "Sale of an Asset Subject to a Lease and Nonrecourse Financing: 'Wrap Lease Transactions.'" The Task Force did not reach a consensus about whether the enterprise that sells the asset to the equity investor should recognize income at the inception of the leaseback for the amount by which the proceeds received from the sale (including any portion of the residual value of the leased asset retained) exceed the carrying amount of residual value of the asset sold. Some Task Force members commented that the wrap lease transaction is a sale-leaseback transaction and any income should be deferred and amortized over the lease term under the sale-leaseback provisions of Statement 13, as amended. Other Task Force members viewed the wrap lease transaction as a sale of the residual value and tax benefits associated with the leased asset and proposed that income should be recognized at the time of sale.
24. Paragraph 107 of Statement 13 acknowledges that sale-leaseback transactions initiated for tax purposes were anticipated in developing that standard.

   . . . Most sale-leasebacks are entered into as a means of financing, for tax reasons, or both and that the terms of the sale and the terms of the leaseback are usually negotiated as a package. Because of this interdependence of terms, no means could be identified for separating the sale and the leaseback that would be both practicable and objective. [Emphasis added.]

Therefore, a wrap lease transaction should be accounted for as a sale-leaseback transaction under Statement 13, as amended, or Statement 98, as appropriate.

EFFECTIVE DATE AND TRANSITION

25. The provisions of this Technical Bulletin are effective for transactions entered into after December 31, 1988. Earlier application to transactions occurring in periods for which annual financial statements have not been issued is encouraged.

Appendix: BACKGROUND INFORMATION AND CONSIDERATION OF COMMENTS RECEIVED ON THE PROPOSED TECHNICAL BULLETIN

26. A proposed Technical Bulletin, Issues Relating to Accounting for Leases, was released for comment on April 14, 1988. Sixty-seven letters of comment were received on the proposed Technical Bulletin. Certain of the comments received and consideration of them are included in the following discussions of the specific issues to which they relate.

27. The proposed Technical Bulletin addressed three issues, "Lessee's Use of the Maximum Implicit Interest Rate," "Sales of Assets Subject to Operating Leases and Nondiscriminatory Remarketing Agreements," and "Delayed Equity Contributions in Leveraged Leases Using Recourse Debt," that are not included in this Technical Bulletin. Comments received indicated those issues may require consideration of additional issues that could not be done expeditiously. Therefore, those issues are not addressed here.
Time Pattern of the Physical Use of the Property in an Operating Lease

28. Some respondents to the issue "Time Pattern of the Physical Use of the Property in an Operating Lease" indicated that rent should be expensed only during the period that the lessee occupies or utilizes the leased property, irrespective of the time period the lessee actually has control over the property's use. Consistency with Technical Bulletin 85-3 was questioned because in the situations being discussed all of the space is not being fully employed. The Technical Bulletin clarifies that the right to control the use of the property is viewed as the same as the use of the property.

29. Some respondents requested clarification about how to account for situations in which the rental rate for the right to control the use of additional property is higher or lower than the rental rate for property already leased. This Technical Bulletin prescribes the recognition of rental revenue or rental expense based on the fair value of the leased property that the lessee controls, rather than rental recognition based on square footage.

Lease Incentives in an Operating Lease

30. Some respondents to the issue "Lease Incentives in an Operating Lease" stated that the assumption by the lessor of any portion of the obligation of the lessee's preexisting lease with a third party should not be considered part of the new lease by either the lessor or the lessee. They contend that paragraphs 35–40 of Statement 13 prescribe the appropriate accounting for subleases for both the original lessee and the new lessee (the lessor who assumes the lease obligation) and require that the sublease be accounted for as a separate transaction. Although the sublease can be viewed as a second transaction, the assumption of the old lease by the lessor is the same as the lessor's making the lessee's remaining lease payments. Under this Technical Bulletin, any loss incurred by the lessor as a result of entering into a lease is an incentive for the lessee to sign the new lease and should be accounted for as part of the new lease transaction.

31. Some respondents noted that it is difficult and confusing to require the lessee to estimate the loss incurred by the lessor on the assumption of the preexisting lease with a third party as an incentive. Those respondents noted that the lessee would not normally possess that information. This Technical Bulletin presumes that a lessee can make a reasonable estimate of such an incentive; otherwise, negotiating payments due under the new lease would be impossible. A comparison of a lease without the assumption of the previous lease should provide an indication of the effect of that lease assumption. While such comparisons are not based on market transactions, the lessee should make its best estimate and account for the incentive under this Technical Bulletin.
Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor

32. A number of respondents to the issue "Applicability of Leveraged Lease Accounting to Existing Assets of the Lessor" agreed with the literal reading of Statement 13, but they argued that accounting ignores the substance of the transaction. They stated that interpreting the word *same* to mean *exactly the same* is inappropriate and overly harsh for an existing asset when measurement of carrying value and fair value for that asset are based on approximations, that is, depreciation and appraisal. Another suggestion was to allow an acceptable range of amounts between cost and fair value. Those respondents also argued that a transaction with insignificant profit recognition is consistent with the cash flow concept on which leveraged leasing is based and should be allowed. Those views were not accepted because leveraged lease accounting is an exception to normal lease accounting, and the requirements are intended to be applied literally.

33. Certain respondents disagreed with proscribing leveraged lease accounting following an asset write-down to fair value in contemplation of the lease transaction. They noted the absence of any prohibition in Statement 13 and argued that write-downs that are not arbitrary should not preclude leveraged lease accounting. Statement 13 requires a leveraged lease to first qualify as a direct financing lease. Under Statement 13, sales-type and direct financing leases are similar except that a sales-type lease reports a gain or loss at the inception of the lease and a direct financing lease does not. This Technical Bulletin views a write-down in contemplation of a leveraged lease as a sales-type lease with a loss. Sales-type leases do not qualify for leveraged lease accounting as is specifically stated in paragraph 42(a) of Statement 13.

Money-Over-Money Lease Transactions

34. Several respondents to the issue "Money-Over-Money Lease Transactions" stated that accounting for the transactions as sales has been accepted in practice as being in accordance with generally accepted accounting principles, even though that accounting is contrary to the requirements of Statement 13. Several respondents also stated that sales accounting for a money-over-money lease transaction better reflects the economics of the transaction because the lessor's primary role is as an intermediary in the transaction. Those respondents stated that money-over-money lease transactions are analogous to extinguishments of debt and transfers of receivables provided for under FASB Statements No. 76, *Extinguishment of Debt*, and No. 77, *Reporting by Transferors for Transfers of Receivables with Recourse*. They stated the existence of nonrecourse debt in this transaction is more reflective of a full transfer of risks than occurs for transactions that receive favorable accounting under those Statements. However, those Statements were developed for certain fact-specific situations, and analogies to those Statements usually are not appropriate.

35. Some respondents proposed that the accounting for money-over-money lease transactions should follow leveraged lease accounting. Those respondents indicated that the money-over-money lease transaction is an extension of the leveraged lease concept, except that
the lessor's net investment at the inception of the lease may be negative. Since leveraged lease accounting does not permit income recognition when the net investment is negative, those respondents questioned whether income should be recognized in a manner consistent with income recognition for leveraged leases. The lessee's prepayment of operating lease revenues could also result in the lessor's negative net investment in a leased asset. In a money-over-money lease transaction, the lessor accomplishes the same effect as prepayment by borrowing from a third party at a lower financing cost than the lessor is charging on the lease. Thus, the lessor is only gaining by a financing transaction that should not result in immediate income recognition or be eligible for derecognition in the statement of financial position.

**Wrap Lease Transactions**

36. Some respondents to the issue "Wrap Lease Transactions" stated that the accounting should reflect the economic substance of the sale of tax benefits and residual interest. That argument was considered and rejected in the proposed Technical Bulletin as discussed in paragraphs 23 and 24 of this Technical Bulletin. Some respondents noted that the discussion of sale-leasebacks did not refer to the provisions of Statement 98 that would be applicable if the property leased back is real estate. A reference to that Statement has been added.

The Financial Accounting Standards Board has authorized its staff to prepare FASB Technical Bulletins to provide guidance on certain financial accounting and reporting problems on a timely basis, pursuant to the procedures described in FASB Technical Bulletin No. 79-1 (Revised), *Purpose and Scope of FASB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items.
Footnotes
FTB88-1, Footnote 1--For the purpose of applying this Technical Bulletin, entered into is used in the context of the term inception of the lease as defined in paragraph 5(b) of Statement 13, as amended by FASB Statement No. 23, Inception of the Lease.