

New Zealand Equivalent to SIC Interpretation 15
Operating Leases—Incentives (NZ SIC-15)

Issued November 2004 and incorporates amendments up to and including 30 June 2011

This Interpretation was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Interpretation is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

NZ SIC-15

COPYRIGHT

© Crown copyright 2006

This ASRB standard contains IFRS Foundation copyright material. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source.

On 1 July 2011, the ASRB was reconstituted as the External Reporting Board (XRB). The content, application and legal status of this standard is unaffected by this change. However, requests and inquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All rights in this material outside of New Zealand are reserved by the IFRS Foundation. Reproduction of ASRB/XRB standards outside of New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside New Zealand should be addressed to the IFRS Foundation.

ISBN 1-877430-66-8

New Zealand Equivalent to SIC Interpretation 15 *Operating Leases—Incentives* (NZ SIC-15) is set out in paragraphs 3–6.

NZ SIC-15 should be read in the context of the Basis for Conclusions on SIC-15 and the IASB’s appendix illustrating the application of SIC-15. The scope and authority of Interpretations are set out in paragraphs 2 and 7–16 of the *Preface to International Financial Reporting Standards*.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ SIC-15.

NZ SIC-15

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ SIC-15 *Operating Leases—Incentives*

This table lists the pronouncements establishing and amending NZ SIC-15. The table is based on amendments approved as at 30 June 2011.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ SIC-15 <i>Operating Leases— Incentives</i>	Nov 2004 (Approval 41)	1 Jan 2005	1 Jan 2007

New Zealand Equivalent to SIC Interpretation 15

Operating Leases—Incentives **(NZ SIC-15)**

References:

- NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 17 *Leases*

Issue

- 1 In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.
- 2 The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

Consensus

- 3 All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.
- 4 The lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.
- 5 The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another

NZ SIC-15

systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

- 6 Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), shall be accounted for by the lessee in accordance with the New Zealand International Accounting Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

Basis for Conclusions on SIC-15

7–11 [Paragraphs 7–11 do not form part of NZ SIC-15.]

Effective Date

This Interpretation becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Interpretation is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

Appendix to SIC-15

[This appendix does not form part of NZ SIC-15.]

NZ SIC-15