New Zealand Equivalent to SIC Interpretation 15

Operating Leases—Incentives (NZ SIC-15)

Issued November 2004 and incorporates amendments to 30 November 2012

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

This Interpretation is superseded by NZ IFRS 16 *Leases*. NZ IFRS 16 shall be applied for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted as long as an entity also applies NZ IFRS 15 *Revenue from Contracts with Customers* at the same time, in which case this Standard is superseded from the earlier date of application.

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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.

Any New Zealand additional material is shown with either "NZ" or "RDR" preceding the paragraph number.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ SIC-15.

The following is available within New Zealand on the XRB website as additional material

BASIS FOR CONCLUSIONS ON SIC-15

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 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.

Framework: Tier 1 and Tier 2 For-profit Entities, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

Appendix to SIC-15

[This appendix does not form part of 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 November 2012.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ SIC-15 *Operating Leases—Incentives*	Nov 2004	1 Jan 2005	1 Jan 2007
Framework: Tier 1 and Tier 2 For-profit Entities[1]	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ SIC-15		
Paragraph affected	**How affected**	**By … [date]**
Effective date	Amended	*Framework: Tier 1 and Tier 2 For-profit Entities* [Nov 2012]

1 This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.