

SIC Interpretation 15

Operating Leases—Incentives

In April 2001 the International Accounting Standards Board adopted SIC-15 *Operating Leases—Incentives*, which had originally been issued by the Standing Interpretations Committee of the International Accounting Standards Committee in December 1998.

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SIC Interpretation 15 *Operating Leases—Incentives* (SIC-15) is set out in paragraphs 3–6. SIC-15 is accompanied by a Basis for Conclusions and illustrative examples. The scope and authority of Interpretations are set out in paragraphs 2 and 7–16 of the *Preface to International Financial Reporting Standards*.

FOR THE FOLLOWING MATERIAL ACCOMPANYING SIC-15:

- BASIS FOR CONCLUSIONS
- ILLUSTRATIVE EXAMPLE

SEE PART B OF THIS EDITION

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References

- IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 17 *Leases* (as revised in 2003)

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 Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

Date of consensus

June 1998

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Effective date

This Interpretation becomes effective for lease terms beginning on or after 1 January 1999.