

NZ SIC-15 (Diff Rep)



NZ SIC Interpretation 15 (Diff Rep)

Operating Leases—Incentives (NZ SIC-15 (Diff Rep))

Issued 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.

As at 1 December 2012, the requirements in this Interpretation are identical to the requirements in NZ SIC-15 *Operating Leases—Incentives* as applied by qualifying entities. Versions of NZ SIC-15 applied by qualifying entities prior to adoption of this Interpretation are available in the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

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ISBN 978-1-927238-07-3

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NZ SIC Interpretation 15 (Diff Rep) *Operating Leases—Incentives* (NZ SIC-15 (Diff Rep)) is set out in paragraphs 3–6.

NZ SIC-15 (Diff Rep) 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.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ SIC-15 (Diff Rep).

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ SIC-15 (Diff Rep) *Operating Leases—Incentives*

This table lists the pronouncement establishing NZ SIC-15 (Diff Rep).

| Pronouncements | Date approved | Early operative date | Effective date (annual reporting periods... on or after ...) |
|---|----------------------|-----------------------------|---|
| NZ SIC-15 (Diff Rep) <i>Operating Leases—Incentives</i> | Nov 2012 | Early application permitted | 1 Dec 2012 |

The following tables list the pronouncements establishing and substantially amending NZ SIC-15 as applied by qualifying entities prior to the issue of this Interpretation as NZ SIC-15 (Diff Rep).

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

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Operating Leases—Incentives

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References:

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

NZ SIC-15 (Diff Rep) is identical to NZ SIC-15 applied by qualifying entities prior to the issuance of NZ SIC-15 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ SIC-15 on adoption of this Interpretation.

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.

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- 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 (Diff Rep).]

Effective Date

A Tier 3 for-profit entity shall apply this Interpretation for annual periods beginning on or after 1 December 2012. Early application is permitted. This Interpretation replaces NZ SIC-15 as applied by qualifying entities prior to the issuance of this Interpretation. There are no changes to the requirements of NZ SIC-15 as it applied to qualifying entities.

Appendix to SIC-15

[This appendix does not form part of NZ SIC-15 (Diff Rep).]