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**INTERPRETATION OF  
STATUTORY BOARD  
FINANCIAL  
REPORTING STANDARD**

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**INT SB-FRS 15**

## **Operating Leases – Incentives**

This version of INT SB-FRS 15 does **not** include amendments that are effective for annual periods beginning **after** 1 January 2017.

Interpretation of Statutory Board Financial Reporting Standard 15 *Operating Leases—Incentives* (INT SB-FRS 15) is set out in paragraphs 3–6. INT SB-FRS 15 is accompanied by illustrative examples. The scope and authority of Interpretations are set out in the *Preface to Statutory Board Financial Reporting Standards*.

**FOR THE ILLUSTRATIVE EXAMPLES ACCOMPANYING INT SB-FRS 15, SEE SEPARATE DOCUMENT.**

# Interpretation of Statutory Board Financial Reporting Standard 15

## *Operating Leases—Incentives*

### References

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- SB-FRS 1 *Presentation of Financial Statements* (as revised in 2008)
- SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- SB-FRS 17 *Leases* (as revised in 2004)

### Issue

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- 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

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- 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.

### Effective date

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This Interpretation becomes effective on 1 February 2006.