

IAS 17 Leases (August 2005)

Recognition of operating lease incentives under SIC-15

The IFRIC considered the appropriate period over which to recognise an incentive for an operating lease, when an incentive is provided and the lease contains a clause that requires rents to be repriced to market rates. Two possible approaches for the period over which to recognise the incentive are:

- recognise the incentive over the full term of the operating lease; or
- recognise the incentive over the shorter of the lease term and a period ending on a date from which it is expected the prevailing market rentals will be payable.

The IFRIC noted that SIC-15.5 requires: 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. The IFRIC thought the wording of SIC-15.5 was clear and did not accept an argument that the lease expense of a lessee after an operating lease repriced to market ought to be comparable with the lease expense of an entity entering into a new lease at that same time at market rates. Nor did the IFRIC believe that the repricing of itself would be representative of a change in the time pattern referred to in SIC-15.5. The IFRIC decided not undertake a project to modify SIC-15.