International Accounting Standards Board®

Press Release

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IFRIC publishes proposed guidance on customer loyalty programmes

The International Financial Reporting Interpretations Committee (IFRIC)* has today released for public comment a draft Interpretation, IFRIC D20 *Customer Loyalty Programmes.*

The draft Interpretation addresses accounting by entities that grant their customers 'points', 'air miles' or other award credits when the customers buy goods or services. Specifically, it addresses how such entities should recognise and measure their obligations to provide free or discounted goods or services if and when the customers redeem the award credits.

The draft Interpretation proposes that entities should allocate some of the proceeds of the first sale to the award credits and defer recognition of this amount of revenue until they have fulfilled their obligations to supply the free or discounted goods or services.

Introducing the draft Interpretation, Robert Garnett, IFRIC Chairman and IASB member, said:

> Customer loyalty programmes are now widespread in a range of businesses—retail, airline and consumer finance to name a few. IFRSs lack detailed guidance on how these businesses should account for their obligations and practices vary. The proposed Interpretation would standardise practice in a way that reflects our view that loyalty awards are separate goods or services for which customers are implicitly paying.
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> The IFRIC has been assisted on this project by staff of the French national standard-setter, the Conseil National de la Comptabilité. We are grateful to the CNC for this support.

* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

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Subscribers to the IASB's Comprehensive Subscription Service can view the draft Interpretation from the secure online services area of the IASB's Website (www.iasb.org). Those wishing to subscribe should contact:

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From 8 September 2006 the complete text of the draft Interpretation will be freely available from the Website. The proposals are open for public comment until 6 November 2006.

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NOTES TO EDITORS

About IFRIC D20

1. The main issue addressed in this draft Interpretation is the recognition and measurement of obligations to provide customers with free or discounted goods or services if and when they choose to redeem loyalty award credits.

2. One approach used at present is to accrue an expense at the time of the first sale, when the award credits are granted. The expense is based on the costs the entity expects to incur to supply the free or discounted goods or services. The rationale for this approach is that loyalty awards are incidental costs of securing the first sale, which should be recognised when that sale is made.

3. A second approach is to divide the proceeds of the first sale into two components—an amount that reflects the value of the goods or services delivered in the first sale and an amount that reflects the value of the loyalty award credits. Proceeds allocated to the first component are recognised as revenue at the time of the first sale. But proceeds allocated to the award credits are deferred as a liability until the entity fulfils its obligations in respect of the award credits, either by supplying the free or discounted goods or services itself when customers redeem the credits, or engaging (and paying) a third party to assume the obligation to do so.

4. The practical difference between the two approaches is the measurement of the liability. The first approach measures the liability on the basis of expected costs; the second on the basis of selling prices.

5. The draft Interpretation proposes that all entities should apply the second approach. The proposal reflects the IFRIC's view that loyalty awards are separately identifiable goods or services for which customers are implicitly paying. The general standard on revenue recognition, IAS 18 *Revenue*, requires separately identifiable components of sales transactions to be accounted for separately if necessary to reflect the substance of the transactions.

About the IFRIC

The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about six times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.