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Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH

commentletters@iasb.org

Dear Bob,

**IFRIC Draft Interpretation D20 *Customer Loyalty Programmes***

Deloitte Touche Tohmatsu is pleased to comment on the International Financial Reporting Interpretations Committee's (the IFRIC's) Draft Interpretation D20 Customer Loyalty Programmes (referred to as the Draft Interpretation).

We commend the IFRIC for its effort to provide interpretative guidance to establish a consistent approach for accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. The Draft Interpretation addresses an issue for which we believe there is need for an interpretation.

We support the consensus in the Draft Interpretation, in so far that it applies to customer loyalty programmes that represent multiple sales, as we think the logic set out for identification and measurement of separately identifiable components in a transaction is irrefutable. We believe the IFRIC has interpreted the distinction between paragraph 13 and paragraph 19 in IAS 18 *Revenue* appropriately. Paragraph 13 of IAS 18 applies when a single contract requires two or more separate goods or services to be delivered at different times. In contrast, paragraph 19 of IAS 18 applies when an entity has to incur further costs related to items already delivered. An entity would not normally incur costs related to award credits at the time of the initial transaction because the entity has not provided the goods or the services to the customer at that time but rather when the customer redeems the award credits. Award credits that are provided as part of a transaction should therefore follow the accounting requirements in paragraph 13 and revenue accounted for when the entity deliver the goods or services, as a result of the award credits, to the customer.

However, we want to highlight that we have concerns regarding the scope of the Draft Interpretation. We believe that the IFRIC should clarify further the distinction between customer loyalty programmes and marketing expenses, as we believe guidance in the Draft Interpretation is not sufficient.

We also note that we have reservations about the proposed guidance on the allocation of revenue to components, and more specifically the requirements set out in paragraph 6 and 7 of the Draft Interpretation.

Please note that we have provided detailed comments on these issues in the appendix to this letter.

If you have any questions concerning our comments, we would be pleased to discuss them.

Sincerely,

Ken Wild
**Global IFRS Leader**

**Appendix**
**Detailed comments on D20 *Customer Loyalty Programmes***

*Scope*

We believe that the IFRIC should provide further clarification on what distinguishes a customer loyalty programme from a marketing expense. Currently we can not see that the IFRIC has identified a distinction that will provide constituents with guidance that will promote rigorous and uniform application of IFRSs in this area.

In particular, the IFRIC should clarify whether IAS 18 is written from the perspective of the entity providing the goods and services, or the customer. IAS 18 requires the entity to assess each transaction to determine whether it is providing multiple goods or services as part of a customer loyalty programme.

To stimulate the discussion and illustrate the issue, we have included some examples that we believe are marketing schemes but which, due to the lack of clear guidance in the Draft Interpretation, could be perceived by constituents to be in the scope of customer loyalty programmes.

- A publishing entity offer customers a "free gift" when they subscribe to different magazines published by the entity. The customer will not receive this gift before they have subscribed for a minimum of six months. The gifts vary depending on what kind of magazine to which the customer subscribes. The entity adapts the gifts to the customers' preference as they believe this would enhance subscriptions. For example, customers that subscribe to fishing magazines would receive fishing accessories.
- A credit card company offers customers a "gift" for every €10.000 the customer spends with their card. These gifts are small items like a bottle of wine, a tie, a theatre ticket etc. The gift would be chosen by the credit card company and the customer would not know what kind of gift the credit card company would provide. The customer is not allowed to receive a gift of their choice.
- A fast food restaurant and a car park enter into an agreement under which the car park issues parking vouchers which subsequently can be redeemed at the restaurant for a free meal. The restaurant provides the vouchers used by the car park. We think some may read such a transaction to be within the scope of the Draft Interpretation as paragraph 6 refers to "*transactions in which the entity* [the car park] *grants their customers award credits*", without requiring any acceptance from the customer to participate. The customer has neither expressly nor implicitly subscribed to be a part of a customer loyalty programme, but merely rented parking space. Indeed, the customer may be unaware of or be indifferent to the scheme. Consequently there is no relevant connection between the services provided by the car park and the free meal which is offered each time the car park issues a parking voucher. The scheme is a marketing scheme operated by the restaurant.

In all these examples the customer could perceive the transaction as providing more than one good or service in a single transaction. It could also be argued that such offers from an entity create customer loyalty as the customer thinks that they receive some additional goods or services. If the Draft Interpretation does not clarify whether IAS 18 is written from an entity perspective, we believe that examples as the ones we have provided above could be mistaken for loyalty programmes.

*Allocation method*

We disagree with paragraph 6 of the draft Interpretation, which requires the fair value of the consideration received to be allocated to the separately identifiable components of the transaction based on those components' relative fair value. The fundamental revenue recognition principle in IAS 18 is stated in paragraph 9, which requires that "revenue shall be measured at the fair value of the consideration received or receivable." Further, paragraph 13 of IAS 18 states that the criteria in IAS 18 paragraph 9 should be applied to the separately identifiable components of a transaction, when this is necessary to reflect the substance of the transaction. The Standard is silent as to how this should be done.

D20 paragraph 6 appears to prescribe explicitly one method for allocating the fair value of the consideration received or receivable to the separately identifiable components of the transaction - on a relative fair value basis, i.e. the amounts for which each component could be sold separately. As IAS 18 does not currently prescribe this method, we do not think the IFRIC has justified its decision to restrict the allocation method as it appears to have done. In addition, paragraph 7, which expands on paragraph 6, provides guidance on determining the fair value of the undelivered component, using a method that appears to be a 'residual value method'; we think this adds to the confusion. We are concerned that, notwithstanding the comment in BC10, entities might presume that the method described in paragraph 7 is the only appropriate method. We do not think this conclusion is what the IFRIC intended. Consequently, we suggest that the IFRIC delete paragraph 7 (or alternatively remove it to the Basis for Conclusions, where other possible methods are discussed).