



International Accounting Standards Board®

Press Release

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IFRIC issues guidance on customer loyalty programmes

The International Financial Reporting Interpretations Committee (IFRIC)* has today issued an Interpretation, IFRIC 13 *Customer Loyalty Programmes*.

The Interpretation addresses accounting by entities that grant loyalty award credits (such as ‘points’ or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services (‘awards’) to customers who redeem award credits.

The Interpretation requires entities to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. They may fulfil their obligations by supplying awards themselves or engaging (and paying) a third party to do so.

The effect of the Interpretation will be to ensure that obligations to supply customer loyalty awards are measured the same way, whether the award credits are sold separately or granted to customers as part of a larger sale.

Introducing IFRIC 13, Robert Garnett, IFRIC Chairman and IASB member, said:

Until now, international standards have lacked clear guidance for award credits granted ‘free’ with other goods or services. The Interpretation will standardise practice in a way that reflects our view that loyalty awards are separate goods or services for which customers are implicitly paying.

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.

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

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IFRIC 13 *Customer Loyalty Programmes* is available for eIFRS subscribers from 28 June. Those wishing to subscribe to eIFRSs should visit the online shop at www.iasb.org or contact:

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NOTES TO EDITORS***About IFRIC 13***

1. The main issue addressed in the 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 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 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 Interpretation requires entities to apply the second approach. The requirement 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.