Date
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Le Président

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Mr. Robert Garnett
Chairman
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Dear Mr. Garnett,

Re: IFRIC Draft interpretation D20 *Customer Loyalty Programmes*

FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its views on the IFRIC Draft interpretation D20.

We welcome IFRIC's efforts to provide guidance on how to account for Customer Loyalty Programmes and to address how entities should recognise and measure their obligations to provide free or discounted goods and services when customers redeem the credits.

We disagree with IFRIC that a customer loyalty programme represents a separable identifiable component of revenue in all cases. We believe that even if goods or services are delivered at different times, it is often completely linked to the initial transaction. We do not share the argument that because the awards are not delivered to the customer at the same time as the initial service/goods, it is necessary to divide the initial sale into components as stated in BC5. In most circumstances, those programmes are marketing tools designed to enhance sales, which form part of the initial transaction and the value of the credit awarded under the programmes is in most cases very low in comparison with the value of the initial purchase required to earn them. Also, we were told that the consensus proposed in D20 is not in accordance with widespread practice, for example in airline industry, where the cost/provision approach is used.

We believe that the measurement at the fair value of the award credits will result in overestimation of revenues for the entity because the credit often has a value to the customer that is much higher than the value of the product for the entity. We share EFRAG's concerns raised in their preliminary comments regarding the reliability of measurement. The interpretation should address situations where the fair value of the credits awarded cannot be reliably measured.

We call for a better explanation of the principles on which the Interpretation is based so that they can be applied consistently to the various types of scheme that exist in practice.

We propose a more pragmatic approach taking into account the economic substance of the transaction and the cost/benefit of each solution, similar to the third view described in BC6. We support the cost/provision approach and agree with the arguments noted in BC4 when the award granted is incidental and not significant to the entity compared to the service/goods provided. In this case, according to IAS 18.10, the award credits could be accounted for as a reduction of revenue. When the award is significant to and separable from the initial transaction, we would support the deferred revenue approach as advocated in IFRIC D20. However, we suggest providing guidance on how to apply the relative fair value approach, especially when the fair value cannot be reliably measured. Although we recognise the difficulties in finding a dividing line, we believe that, with further guidance on the application of materiality considerations, this approach allows an appropriate treatment for insignificant award credits, which is to recognise expenses at the same time as the revenue.

We are dissatisfied with the guidance provided on forfeitures in the draft interpretation. The deferred revenue should take into account the probability of forfeiture and therefore should be revised during the period in which award credits are redeemed. Under IAS 37 any change in estimate of the liability should be considered to adjust the liability. If the probability that the awarded credits will not be redeemed is higher, the deferred revenues should be reduced. D20 is not clear on this issue and does not mention the possibility that deferred revenue could be reduced through a gain and the treatment of the balance of unredeemed awards at expiration. Also, the interpretation is not clear on the amount of revenue to be released upon the redemption of an award credit.

The draft interpretation does not address properly the situation where a third party provides the awards. Such transactions will be accounted for the same way as an own entity programme according to D20. We believe the situations require more discussion. Under paragraph 8 of D20, the entity would recognise deferred revenue until the third party assumes the obligation. Some would advocate that no deferred revenue be recognised if a third party performs the service or provides the goods. Others suggest that the seller's revenue be limited to the net difference between customer consideration allocated to the award credits and the amount paid by the entity to the third party for supplying the awards (BC14). The issue of several participants in a loyalty programme with award credits redeemable at any of the entities raises also several questions for the recognition of revenue.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

David Devlin
President