

IFRS Briefing Sheet

IFRIC 13 *Customer Loyalty Programmes*

July 2007, **Issue 69**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 13 *Customer Loyalty Programmes*, which was published on 28 June 2007.

This interpretation requires that an entity recognise credits that it awards to customers as part of a sales transaction as a separately identifiable component of revenue, which would be deferred at the date of the initial sale.

Background and Issue

The interpretation addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. In addition, the interpretation includes programmes under which the customer is required to meet qualifying conditions and does not limit the awards to those goods or services supplied by the entity itself. However, it does not address customer loyalty programmes that grant customers financial assets (e.g., cash vouchers).

Consensus

The interpretation addresses the accounting for customer loyalty programme award credits granted as part of sales transactions. It requires programmes within its scope to be accounted for as a separately identifiable component of revenue. It addresses:

- how this component should be measured
- when this revenue should be recognised.

The interpretation precludes accounting for these programmes by recognising all revenue immediately and recognising a provision for any incremental costs of fulfilling the obligation under the award.

Consequently an entity must defer the recognition of revenue attributable to the award credits.

The consideration received or receivable from the customer is allocated between the item sold and the award credit granted based on their fair values.

The interpretation allows the fair value of the award credits to be estimated by reference to the fair value of the awards for which they could be redeemed. If estimated, then the fair value of such awards is reduced in order to take into account:

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- the fair value of awards offered to customers who have not earned award credits from an initial sale
- the proportion of award credits that are not expected to be redeemed by customers.

An entity may measure the fair value of the award credits directly or allocate revenue between the initial sale and the award credits using their relative fair values. The interpretation does not allow the fair value of award credits to be calculated as a residual amount using the fair value of delivered goods / services only.

Revenue attributable to award credits is recognised when they are redeemed or when a third party takes over the underlying obligation.

Summary of Changes from IFRIC Draft Interpretation D20 Customer Loyalty Programmes

In finalising IFRIC 13, the IFRIC made the following changes in response to the comments received on the proposals included in the draft interpretation (published on 7 September 2006; see *IFRS Briefing Sheet*, Issue 56):

- The final interpretation permits, but does not require, revenue to be measured using a relative fair value approach.
- The final interpretation includes a reminder to consider whether an entity is acting as a principal or as an agent in the sales transaction.
- The final interpretation includes illustrative examples to assist

readers in applying the revenue recognition requirements.

Effective Date and Transition

IFRIC 13 is effective for annual periods beginning on or after 1 July 2008. Earlier application is permitted. IFRIC 13 requires retrospective application from the effective date in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* if there is a change in accounting policy.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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