

IFRS Briefing Sheet

IFRIC Draft Interpretation D20 *Customer Loyalty Programmes*

September 2006, **Issue 56**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Draft Interpretation D20 *Customer Loyalty Programmes*, which was published on 7 September 2006.

loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The draft 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 deal with customer loyalty programmes that grant customers financial assets (e.g., cash vouchers).

The issue addressed by the draft interpretation is whether award credits granted in customer loyalty programmes should be accounted for:

- as a separately identifiable component of revenue and, if so:
 - how this component should be measured; and
 - when this revenue should be recognised; or
- by recognising all revenue immediately and recognising a provision for any incremental costs of fulfilling the obligation under the award.

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

Background and Issue

The draft interpretation addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer

Proposed Consensus

The proposed consensus is that an entity should recognise award credits as a separately identifiable component of revenue and consequently defer the recognition of revenue attributable to the award credits.

A supplement to KPMG's publication IFRS in Brief

The consideration received or receivable from the customer would be allocated between the item sold and the award credit granted based on their relative fair values. The draft interpretation allows the fair value of the award credits to be estimated by reference to the discount that the customer would obtain in redeeming the award, taking into account:

- any discount that customers without award credits would receive

- the proportion of awards that are expected to be forfeited
- the time value of money.

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

Effective Date and Transition

The draft interpretation proposes retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting*

Estimates and Errors, with an effective date of annual periods beginning on or after three months after a final interpretation is issued.

Response to the IFRIC

The IFRIC has invited comments on this draft interpretation by 6 November 2006.

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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