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Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France
MEDEF

A F E P

Association Française des Entreprises Privées

IFRIC
30 Cannon Street
London EC4M 6XH
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Paris, Novembre 3, 2006

Ref: IFRIC draft interpretation on Customer Loyalty Programmes

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the proposed amendments to D20 Customer Loyalty Programmes.

We concur with the IFRIC that Customer Loyalty Programmes are widely spread and can take various forms and therefore support IFRIC's decision to propose an interpretation.

We believe the consensus reached by the IFRIC on recognition is likely to be relevant to many situations. We acknowledge that sale transactions which grant loyalty credits to customers may, in those situations, be analysed as multiple-deliverable sales. Scope and criteria need however to be refined somewhat in order to ensure that transactions different in substance do not end in being accounted for in the same manner while similar transactions might be accounted for differently.

However, we believe measurement requirements should be amended. The reference to fair value in allocation the sale proceeds may, in most cases, be unnecessary and burdensome. Reference to the entity's pricing policy is in our view as relevant a reference, since deferred revenue remains valued in all cases on an entity-specific basis. We also believe that IFRIC consensus needs to address the award, either free or at very low prices, of goods or services for which there is potentially no willing buyer.

Please find in the appendix attached detailed comments and proposals meant to address our concerns.
We remain at your disposal should you need further clarification or background information.

Yours sincerely,

ACTEO	AFEP	MEDEF
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Le Président	Le Directeur Général	La Directrice des Affaires Economiques, Financières et Fiscales

Appendix to ACTEO - AFEP - MEDEF comment letter on IFRIC D20 "Customer loyalty programmes"

1- The scope of the interpretation needs to be clarified

1.1 Awards of credits disconnected from a sale transaction

Customer loyalty programmes are being run by companies in order to boost their sales as is explained in the background to the draft interpretation. Some loyalty programmes include granting credits to present and potential customers in ways disconnected from any sale transaction. For example, welcome bonuses are offered to potential customers when they register as members of the programme independently from any purchase being made. In the course of their membership, customers may be granted special credits for having been a member for x years, on their birthdays, Valentine's day etc... Those credits create for entities the same performance obligations as credits granted upon sale transactions. We believe the scope should be reworded to include them.

1.2 Whether goods or services granted are marketed separately

The interpretation fails to indicate that the consensus doesn't apply to goods or services provided free of charge to members of customer loyalty programmes if these goods or services are not marketed separately.

For example, airline companies grant to their loyal customers access to their airport lounges or to fast-track boarding procedures, irrespective of the class of the ticket they are holding, but the access to airline lounges or fast-track boarding procedures is not marketed separately. We therefore believe that no revenue ought to be deferred on this type of service. We encourage IFRIC to clarify this aspect.

2- Valuation requirements need to be amended

2.1 Valuation should be made on the basis of the entity's pricing policy

Deferred revenue, in accordance with D20, would be valued as a portion of what the customer has agreed to pay on its initial purchase. The liability would therefore not be measured at fair value and measurement would remain dependent on an entity-specific measurement basis, as it would reflect the entity's pricing policy.

Burden and cost of identifying the fair value of components in the transaction are therefore unnecessary and should be avoided. We believe that allocation of revenue should be based on the entity's pricing policy for similar items (and where applicable on the price of goods and services purchased from a third - party). In particular, when loyalty credits have a currency unit value, we believe that the most relevant measurement for deferred revenue should be based on this currency unit value.

2.2 Valuation should reflect market demand

We believe that the consensus reached by IFRIC in D20 is based on the assumption that goods and services delivered upon redemption of award credits, if not granted free (or at a heavily discounted price) within customer loyalty programs, would or could be sold. Indeed, the interpretation fails to take into account the relationship between market demand and customer loyalty programs. In other words we believe the IFRIC should clarify that usual public prices are not necessarily the relevant reference. If, for example, the entity grants products that otherwise would be scraped because of inventories being held in excess of market demand, the reference to public pricing is not in our view a sound basis for valuation of deferred revenue. The same applies to free airline tickets which are granted only within the boundaries of statistically empty seats. There is ***no willing buyer available on the market*** for these types of product, if offered at usual or regular prices. If we follow up on our first example, public prices for goods carried in excess may be available. In these instances where indeed goods or services have a zero value, we believe deferred revenue is likely to be best measured with reference to current cost of delivering the zero value good or service. The consensus as written in the draft does not allow for dealing with this type of circumstances adequately.

2.3 Valuation should be made from the entity's perspective

We note that the consensus is written from the customer's perspective. We believe it should be amended to require valuation from the entity's perspective. We agree that proper references are to be identified on the "retail" market (the market on which the entity transacts with its customers). We also acknowledge that valuation is to be based on the customer consideration for the whole transaction. However, this does not mean that it should be valued from the customer's perspective, ie. on the basis of the benefits the customer obtains.

3- Other comments

3.1 Revaluation at reporting date

We believe paragraph 8 needs to be clarified. Our understanding is that D20 requires redemption forecasts to be revised at reporting date. However different interpretations have arisen.

3.2 The consensus should mention that first step is to ensure that customer loyalty programmes generate liabilities

As is explained in the background paragraphs, customer loyalty programmes may take a variety of forms. The consensus makes implicitly the assumption that customer loyalty programmes always generate liabilities. However, some customer loyalty programmes are being operated by the entity unilaterally: the entity may have full discretion on the various terms and conditions of the programme that it may make vary at will : the redemption value of awards credits, the amount of purchases necessary to make award credits vest, the exercise period, for example, may change without any agreement by the customer being necessary. In some circumstances, there is no constructive obligation, only economic compulsion verifies. Entities should therefore be required, as a first step, to verify whether they have a liability.