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THE VOICE OF BUSINESS IN EUROPE

D20 Comment Letters
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom
commentletters@iasb.org

6 November 2006

22.7/1/1

Dear Sir,

RE: IFRIC D20 CUSTOMER LOYALTY PROGRAMMES

In response to your consultation on the above referenced draft interpretation, UNICE would like to offer the following remarks.

UNICE supports IFRIC's initiative to issue an interpretation on how to account for customer loyalty programmes. These programmes are widespread and there are different analyses being made of transactions having similar economic impact, as described in the draft basis for conclusions. However we have several concerns on the consensus reached by IFRIC.

Our first concern lies in the loose definition of the scope of the interpretation. In our view customer loyalty programmes should be more closely defined in order to avoid that the interpretation be regarded as encompassing all types of multiple deliverable sale transactions. Indeed credits being granted at the time of the initial sale to be potentially redeemed later may be read as being a description of form. Customer loyalty programmes feature public offers, part of the entity's pricing policy, which are made available to any customer who buys from the entity. This particular feature should, in our view, help to restrict the scope of the interpretation.
We also believe that goods and services which may be delivered at the time award credits are redeemed and that are not marketable separately should and not be seen as deliverables and therefore be scoped out.

We however do not fully support IFRIC's consensus on how customer loyalty programmes should be accounted for. UNICE believes that **revenue should be recognised only when goods and services which belong to the core activities of the entity are being provided**. For example, airline companies sell flight tickets, and not pieces of luggage. Revenue remains a useful indicator for users of financial statements if it is meant to reflect sales volumes which are sensitive to the economic parameters of the sector(s) in which the entity operates. We therefore support the third alternative described in BC6. We note that the IFRIC has not included in its basis for conclusions any argument for rejecting this third view. From our perspective, this third

AV. DE CORTENBERGH 168
B-1000 BRUSSELS
VAT BE 863 418 279

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@UNICE.BE
WWW.UNICE.ORG

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view is not in contradiction with the analysis reached by the IFRIC. It rather supplements it in acknowledging that there is no market reality in, for example, customers entering transactions with airline companies in order to purchase pieces of luggage. In the circumstances in which goods or services are purchased from third-parties in order to satisfy delivery of loyalty programme awards, we believe the corresponding cost should trigger a provision to be recognised at the time of the initial sale.

We also have concerns **relating to measurement**. Our experience in implementing IFRS so far is that measuring at "fair value" is understood and practiced in very diverse ways and can raise fierce battles between preparers and auditors. Therefore local divergent practices tend to arise. This diversity of practice will prevail until the IASB has issued its future standard on how to measure fair value. As a result, IFRIC's interpretation is likely to lose in measurement the improved consistency that the adoption of a homogeneous principle is supposed to trigger. We therefore urge the IFRIC to provide more guidance as to the relative fair values which ought to be measured. In particular, we would like to address the following issues:

- in paragraph 7 the reference to the customer's perspective should be removed and the consensus reworded in order to put greater emphasis on fair value being measured from the entity's perspective;
- IFRIC should include as guidance indications in order to clearly limit the relevance of public pricing to goods and services which, notwithstanding the customer loyalty programmes, would genuinely be sold at that price; we are aware of many customer loyalty programmes which grant to customers goods or services which wouldn't be delivered otherwise. In the airline industry, to follow on our example, the fair value of seats granted free on the basis of statistically free seats is nowhere close to any public pricing available. In those circumstances we believe fair value should be measured on the basis of the current cost any market participant would incur to provide the "free" supplementary goods or services. Furthermore, there is no unique pricing, but a whole range of different prices, depending on when the ticket is being bought. We do not think that in the case of customer loyalty programmes the most advantageous price to the company ought to be retained.

Yours sincerely,

J. Choce

(original signed by)
Jérôme P. Chauvin
Director, Legal Affairs Department