

Dutch Accounting Standards Board (The Netherlands)

EFRAG  
Attn. EFRAG Technical Expert  
Group  
41, Avenue des Arts  
B-1040 Brussels  
Belgique

Our ref : EvS  
Direct dial : Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0279  
Date : Amsterdam, 27 October 2006  
Re : **Comment on IFRIC D20**

Dear Sirs,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your draft comment letter on IFRIC D20.

We do not support EFRAG's view that the obligation of an entity to provide free of discounted goods and services under customer loyalty programmes should always be recognised as an expense at the time of the initial sale and measured in accordance with IAS 37. However, we also do not agree with the accounting treatment proposed by IFRIC in IFRIC D20.

We are not convinced that the substance of customer loyalty programmes is always the same. Therefore, we believe that the accounting treatment of customer loyalty programmes should depend on the substance of a specific customer loyalty programme. IFRIC's assumption that award credits are separately identifiable components of revenue is indeed somewhat premature. Our view is that some loyalty awards are costs that directly relate to the goods and services already delivered. The substance of these kind of loyalty awards is marketing related. The costs of these loyalty awards are therefore marketing expenses. But some loyalty awards will have the substance of a separately identifiable component based on paragraph 13 of IAS 18. In that case we believe that the fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the components.

Therefore, we are of the opinion that an interpretation based on the current IAS 18 should formulate criteria for determining which accounting treatment should be adopted by an entity (the third view presented in paragraph BC6). Based on these criteria the entity should decide which accounting treatment leads to financial information that is in line with the substance of customer loyalty programmes. These criteria should at least include the relative value of loyalty awards. If the value of loyalty awards is insignificant in comparison with the value of the purchases required to earn them, this should always justify the accounting approach in which the award credits are accounted for in

accordance with IAS 18.19 (the cost/provision approach). Another criterion should be the nature of the award credits. If award credits are only redeemable for goods and services not supplied by the entity in the course of its ordinary activities this should be regarded as an indication that the award credits are not a separate component of the initial sale transaction. If award credits are redeemable for goods and services supplied by the entity in the course of its ordinary activities this should be regarded as an indication that the award credits are a separate component of the initial sale transaction.

In the appendix to this letter we have included our comments related to your specific questions.

Yours sincerely,

Martin N. Hoogendoorn  
Chairman DASB

## **Appendix**

### **Comment DASB on views EFRAG noted in paragraphs 10 and 11**

We do not support EFRAG's view that the obligation of an entity to provide free of discounted goods and services under customer loyalty programmes should always be recognised as an expense at the time of the initial sale and measured in accordance with IAS 37 (cost/provision approach). However, we also do not agree with the accounting treatment proposed by IFRIC in IFRIC D20.

We are of the opinion that an interpretation based on the current IAS 18 should formulate criteria for determining which accounting treatment should be adopted (the third view presented in paragraph BC6). Based on these criteria the entity should decide which accounting treatment leads to financial information that is in line with the substance of customer loyalty programmes.

These criteria should at least include the relative value of loyalty awards. If the value of loyalty awards is insignificant in comparison with the value of the purchases required to earn them, this should always justify that the award credits are accounted for in accordance with the cost/provision approach. This view is based on a cost benefit analysis. Another criterion should be the nature of the award credits. If award credits are redeemable for goods and services supplied by the entity in the course of its ordinary activities this should be regarded as an indication that the award credits are a separate component of the initial sale transaction (and vice versa).

### **Comment DASB on accounting for the sale of award credits to third parties**

We agree that sales of awards credits to third parties should be accounted for under the general revenue recognition criteria of IAS 18, and that no specific reference is required in IFRIC D20 to these type of transactions.

### **Comment DASB on the cost benefit analysis**

We do not believe that the proposal in IFRIC D20 will increase the relevance of presented information. Indeed we believe that in a lot of cases the benefits of a possible increase of comparability will not outweigh the costs of the proposed uniform accounting treatment. It will also be quite difficult to measure the fair value of granted loyalty awards. Especially if these loyalty awards are insignificant in comparison with the value of the purchases required to earn them. Therefore, we are of the opinion that if the value of loyalty awards is insignificant in comparison with the value of the purchases required to earn them, this should always justify that the award credits are accounted for in accordance with the cost/provision approach.

Furthermore, if award credits are redeemable for goods and services supplied by the entity in the course of its ordinary activities and the relative value of the award credits is significant we are of the opinion that an entity should defer recognition of the fair value of the award credits until the entity have fulfilled their obligation to supply the free or discounted goods or services. In that case the benefits of this accounting treatment (more relevant information) will outweigh the costs of the accounting treatment.

The identification of separately identifiable components in general and the accounting of customer loyalty programmes specifically needs further discussion and should be addressed by the IASB as part of the Revenue project.