



Our Ref.: C/FRSC

By e-mail CommentLetters@iasb.org and by post

29 November 2006

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

Dear Sirs,

IFRIC Draft Interpretation D20 Customer Loyalty Programmes

The Hong Kong Institute of CPAs is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on Draft Interpretation D20 *Customer Loyalty Programmes*.

We appreciate the IFRIC's initiative in developing D20 to address the accounting for customer loyalty programmes with an aim of eliminating divergence in practice. We understand that the IFRIC has considered the following two treatments for customer loyalty programmes:

1. to defer the recognition of part of the consideration received from the initial sales transaction relating to the obligation as revenue until the entity fulfils its obligation with the liability being measured at fair value which may be estimated on the basis of the value to the customer (applying paragraph 13 of IAS 18 *Revenue*); or
2. to recognise the obligation at the time of the initial sale at an amount determined under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (applying paragraph 19 of IAS 18).

We agree that the first treatment would be appropriate for those customer loyalty programmes which are, in substance, part of a multiple sales transaction where a single contract requires two or more separately identifiable goods or services to be delivered at different times (e.g. buy one business class air ticket and get one economy class air ticket for free). The second treatment would be appropriate when the costs incurred by the company are in fact marketing expenses which relate to items already delivered (e.g. credit card bonus points awarded by a credit card company when the card is used at a third party merchant or incidental awards of air miles, for example, when using hotels or designated restaurants).

We consider that the issue would be better addressed by establishing principles for distinguishing between multiple sales contracts customer loyalty programmes and marketing activities that are presented as customer loyalty programmes as the nature of the transactions involved are different. In particular, we note that some marketing activities presented as customer loyalty programmes, such as awarding points earned on the amount spent on credit cards, are not directly related to the



sources of revenue (such as any annual fees to cardholders, fees from merchants accepting credit cards or interest charges). We also note that a wide range of “customer loyalty programmes” are used in various industries where the set-up of the programmes can be very different. Further consideration is therefore considered necessary regarding the scope of transactions that D20 is intended to cover and its applicability to different industries.

In respect of the allocation of the fair value of the consideration received or receivable in respect of the initial sale between the components, i.e. the goods and services sold and the award credits granted, D20 paragraph 6 prescribes that the allocation shall be made by reference to the relative fair values of the components. However, paragraph 7, which appears to elaborate paragraph 6, seems to suggest a different allocation method. We find this rather confusing and clarification is considered necessary. In addition, we consider that D20 has not adequately justified its decision to restrict the allocation on a relative fair value basis. We recommend that further explanation should be added since IAS 18 does not prescribe this allocation method.

If you have any questions on our comments, please do not hesitate to contact me at patricia@hkcipa.org.hk.

Yours faithfully,

A handwritten signature in black ink that reads 'Patricia McBride'.

Patricia McBride
Director, Standard Setting

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