New Zealand Equivalent to IFRIC Interpretation 13

Customer Loyalty Programmes (NZ IFRIC 13)

Issued September 2007 and incorporates amendments up to and including 30 November 2008

This Interpretation was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in September 2007 under the Financial Reporting Act 1993. This Interpretation is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

NZ IFRIC 13

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HISTORY OF AMENDMENTS

Table of Pronouncements - NZ IFRIC 13 *Customer Loyalty Programmes*

This table lists the pronouncements establishing and amending NZ IFRIC 13. The table is based on amendments approved as at 30 November 2008.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods… on or after …)
NZ IFRIC 13 *Customer Loyalty Programmes*	Sept 2007 (Approval 92)	Early application permitted	1 July 2008

New Zealand Equivalent to IFRIC Interpretation 13 *Customer Loyalty Programmes* (NZ IFRIC 13) is set out in paragraphs 1-11 and Appendices A and B.

NZ IFRIC 13 should be read in the context of the IFRIC's Basis for Conclusions on IFRIC 13 and the Illustrative Examples for IFRIC 13. The scope and authority of Interpretations are set out in paragraphs 2 and 7–16 of the *Preface to International Financial Reporting Standards.*

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IFRIC 13.

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References

- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 18 *Revenue*
- NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

BACKGROUND

1 Customer loyalty programmes are used by entities to provide customers with incentives to buy their goods or services. If a customer buys goods or services, the entity grants the customer award credits (often described as 'points'). The customer can redeem the award credits for awards such as free or discounted goods or services.

2 The programmes operate in a variety of ways. Customers may be required to accumulate a specified minimum number or value of award credits before they are able to redeem them. Award credits may be linked to individual purchases or groups of purchases, or to continued custom over a specified period. The entity may operate the customer loyalty programme itself or participate in a programme operated by a third party. The awards offered may include goods or services supplied by the entity itself and/or rights to claim goods or services from a third party.

SCOPE

3 This Interpretation applies to customer loyalty award credits that:

(a) an entity grants to its customers as part of a sales transaction, ie a sale of goods, rendering of services or use by a customer of entity assets; and

(b) subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

The Interpretation addresses accounting by the entity that grants award credits to its customers.

ISSUES

4 The issues addressed in this Interpretation are:

(a) whether the entity's obligation to provide free or discounted goods or services ('awards') in the future should be recognised and measured by:

   (i) allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue (applying paragraph 13 of NZ IAS 18); or

   (ii) providing for the estimated future costs of supplying the awards (applying paragraph 19 of NZ IAS 18); and

(b) if consideration is allocated to the award credits:

   (i) how much should be allocated to them;

   (ii) when revenue should be recognised; and

   (iii) if a third party supplies the awards, how revenue should be measured.

CONSENSUS

5 An entity shall apply paragraph 13 of NZ IAS 18 and account for award credits as a separately identifiable component of the sales transaction(s) in which they are granted (the 'initial sale'). The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award credits and the other components of the sale.

6 The consideration allocated to the award credits shall be measured by reference to their fair value, ie the amount for which the award credits could be sold separately.

7 If the entity supplies the awards itself, it shall recognise the consideration allocated to award credits as revenue when award credits are redeemed and it fulfils its obligations to supply awards. The amount of revenue recognised shall be based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

8 If a third party supplies the awards, the entity shall assess whether it is collecting the consideration allocated to the award credits on its own account (ie as the principal in the transaction) or on behalf of the third party (ie as an agent for the third party).

(a) If the entity is collecting the consideration on behalf of the third party, it shall:

   (i) measure its revenue as the net amount retained on its own account, ie the difference between the consideration allocated to the award credits and the amount payable to the third party for supplying the awards; and

(ii) recognise this net amount as revenue when the third party becomes obliged to supply the awards and entitled to receive consideration for doing so. These events may occur as soon as the award credits are granted. Alternatively, if the customer can choose to claim awards from either the entity or a third party, these events may occur only when the customer chooses to claim awards from the third party.

(b) If the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfils its obligations in respect of the awards.

9 If at any time the unavoidable costs of meeting the obligations to supply the awards are expected to exceed the consideration received and receivable for them (ie the consideration allocated to the award credits at the time of the initial sale that has not yet been recognised as revenue plus any further consideration receivable when the customer redeems the award credits), the entity has onerous contracts. A liability shall be recognised for the excess in accordance with NZ IAS 37. The need to recognise such a liability could arise if the expected costs of supplying awards increase, for example if the entity revises its expectations about the number of award credits that will be redeemed.

EFFECTIVE DATE AND TRANSITION

10 An entity shall apply this Interpretation for annual periods beginning on or after 1 July 2008. Earlier application is permitted only when an entity complies, or has complied, with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* in its annual financial statements for a period beginning on or after 1 January 2005. If an entity applies the Interpretation in its financial statements for a period before 1 July 2008, it shall disclose this fact.

11 Changes in accounting policy shall be accounted for in accordance with NZ IAS 8.

APPENDIX A

APPLICATION GUIDANCE

This appendix is an integral part of the Interpretation.

Measuring the fair value of award credits

AG1 Paragraph 6 of the consensus requires the consideration allocated to award credits to be measured by reference to their fair value, ie the amount for which the award credits could be sold separately. If the fair value is not directly observable, it must be estimated.

AG2 An entity may estimate the fair value of award credits by reference to the fair value of the awards for which they could be redeemed. The fair value of these awards would be reduced to take into account:

(a) the fair value of awards that would be offered to customers who have not earned award credits from an initial sale; and

(b) the proportion of award credits that are not expected to be redeemed by customers.

If customers can choose from a range of different awards, the fair value of the award credits will reflect the fair values of the range of available awards, weighted in proportion to the frequency with which each award is expected to be selected.

AG3 In some circumstances, other estimation techniques may be available. For example, if a third party will supply the awards and the entity pays the third party for each award credit it grants, it could estimate the fair value of the award credits by reference to the amount it pays the third party, adding a reasonable profit margin. Judgement is required to select and apply the estimation technique that satisfies the requirements of paragraph 6 of the consensus and is most appropriate in the circumstances.

APPENDIX B

AMENDMENTS TO THE FRAMEWORK FOR DIFFERENTIAL REPORTING FOR ENTITIES APPLYING THE NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS REPORTING REGIME

Entities shall apply the amendments in this appendix for annual periods beginning on or after 1 July 2008. If an entity applies this Interpretation for an earlier period, the amendments shall be applied for that earlier period.

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The amendments contained in this appendix when this IFRIC was issued in 2007 have been incorporated into the relevant pronouncements published in this volume.

IFRIC Illustrative Examples

[These examples accompany but do not form part of NZ IFRIC 13.]

IFRIC Basis for Conclusions

BC1-BC22. [Paragraphs BC1-BC22 do not form part of NZ IFRIC 13.]