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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: January 2007, London

**Project: Cover paper for draft Interpretation on upfront fees
(Agenda Paper 4)**

INTRODUCTION

1. At its November meeting, the IFRIC asked the staff to develop a draft Interpretation considering the accounting for initial fees. The staff have now produced the draft Interpretation, and attach a copy as Agenda Paper 4(i),
2. This paper considers the key points in that draft Interpretation and asks for the IFRIC's views.

Consensus (paragraphs 6-8 and BC2 – BC5)

3. Paragraphs 6-8 of the draft Interpretation summarise the requirements of IAS 18 that are relevant in deciding whether initial fees should be recognised as revenue immediately.
4. The principles have been derived from IAS 18 and the IFRIC's previous discussions and indicate that revenue may only be recognised upfront if:
 - goods or services have been provided upfront;

- the consideration in respect of those goods or services can be measured reliably; and
 - it is probable that consideration in respect of those goods or services will flow to the entity.
5. Paragraph 8 notes that incurring costs is not evidence that a service has been provided to a customer. Similarly, the receipt of an upfront fee is not evidence that a service has been provided to a customer.

~~Does the IFRIC agree that paragraphs 6 – 8 and BC2 – BC5 reflect the IFRIC's discussions to date?~~

Identification of upfront goods or services (paragraphs 9- 11 and BC6 – BC7)

6. During the course of its deliberations, the IFRIC considered whether certain activities which are undertaken upfront are services to a customer. In particular the IFRIC discussed whether investment advice provided upfront by a fund manager is a service to a customer or an advertising or promotional activity.
7. At its November meeting, the IFRIC agreed that investment advice provided upfront is not a service in situations where the fee for the advice is only payable if the advice is acted upon.
8. The IFRIC also agreed that the Interpretation should include a list of indicators to assist in assessing whether an upfront activity is a service to a customer. This list of indicators should include that upfront activities which are only paid for if the customer enters into a contract to receive additional services are not services to the customer that trigger the recognition of revenue.
9. In paragraphs 9-11, the staff has set out a list of indicators which may be used in assessing whether or not an upfront activity is a service to a customer.

~~Does the IFRIC agree that paragraphs 9-11 and BC6-BC7 reflect its conclusions and its previous discussions?~~

Fair value of consideration received (paragraphs 12-14 and BC8 - BC9)

10. At its November meeting, the IFRIC agreed that revenue may not be recognised unless it can be measured reliably. If revenue cannot be measured reliably then it should be deferred and recognised in line with the provision of the ongoing service.
11. Paragraphs 12-14 of the Draft Interpretation codify these discussions.
12. Paragraph 13 also clarifies that the upfront fee must be allocated between the upfront service and ongoing service based on fair value. It is not appropriate to recognise revenue equal to the fair value of the upfront service immediately and defer a balancing figure to be allocated to ongoing services.

~~Does the IFRIC agree that paragraphs 12-14 reflect its views on the measurement of revenue?~~

Other matters

13. Paragraphs 15-17 and BC10-BC14 of the draft Interpretation consider the linkage of transactions. These are considered fully in Agenda Paper 4 (ii). The staff has not therefore considered these sections in further detail as part of this paper.
14. A number of sections of the draft Interpretation have been previously discussed by the IFRIC and so have not been specifically considered this paper. In particular, the following sections are not specifically addressed in this paper :
 - Background
 - Scope
 - Issues
 - Portfolio of Separate customers
 - Effective Date
 - Transition

~~Does the IFRIC have any further comments on the draft Interpretation including comments on the sections not discussed elsewhere in this paper?~~