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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting:	**16 September 2008, London**
Project:	**Annual Improvements**
Subject:	**IFRIC 13 - Measuring the fair value of award credits (Agenda Paper 5)**

Background

1 IFRIC 13 *Customer Loyalty Programmes* applies to customer loyalty award credits that an entity grants to its customers as part of a sales transaction and customers can redeem in the future for free or discounted goods or services. When applying IAS 18 *Revenue*, an entity accounts 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 the initial sale is allocated between the award credits and the other components of the sale (IFRIC 13.5).

2 The consideration allocated to the award credits is 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 (IFRIC 13.6).

3 An entity can estimate the fair value of the award credits based on 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 (IFRIC 13.AG2).

4 The term ‘fair value’ is used to refer to both the value of the award credits and the value of the awards for which the credits could be redeemed. This could be interpreted to mean that the fair value of the award credits is the same as the fair value of the awards for which they could be redeemed without regard to expected forfeitures. In fact, to measure the fair value of the award credits (ie the amount for which they could be sold separately), the nominal value of the possible rewards, rather than their fair value, must be reduced as described in paragraph 3.

5 Example 1 in the Illustrative Examples does not explain how fair value is adjusted for expected forfeitures. An entity also might assume that the expected forfeiture is relevant only for determining the amount of revenue to recognise as the awards are redeemed, rather than being relevant to the measurement of fair value.

Annual improvement considerations

6 The staff thinks there are two ways to proceed:

a the Board could address it in the fair value measurement project. That project will compile all (or nearly all) fair value measurement guidance into a single IFRS. Presumably the fair value measurement guidance in IFRIC 13 will either be removed and placed into the fair value measurement standard or it will be amended to ensure consistency with the definition of fair value; or

b the Board could address it in the annual improvements project.

Staff recommendation

7 The staff understands that paragraph AG2 and Example 1 could be interpreted to mean that the fair value of the awards for which the credits could be redeemed is the same as the fair value of the award credits.

8 The staff thinks this is inconsistent with the definition of fair value and the objective of IFRIC 13 and recommends amending the wording in the paragraph AG2 and Example 1 in the Illustrative Examples.

9 The staff recommends that the Board address this issue in the annual improvements project for timing reasons. The appendix contains the proposed drafting for the amendments [appendix not included in observer note].

Questions for the Board

10 **Does the Board agree to address this issue in the annual improvements project?**

11 **Does the Board agree with the proposed amendments to paragraphs AG2 and IE1?**