Project **Annual Improvements Project – 2008 - 2010 cycle - Comment letter analysis**

Topic **Comment analysis on 'minor issues'**

Minor Issues in the Exposure Draft (ED)

1. The purpose of this agenda paper is to discuss the proposed amendments that were largely supported by respondents with either no or very minor editorial comments being submitted. The table in Appendix A to this paper lists:
   (a) selected proposed amendments,
   (b) the standard affected,
   (c) summary of comments received,
   (d) the staff's assessment of the comments, and
   (e) the staff's recommendation for revised wording.
2. If no comments were received, the staff has indicated that in the table.
3. As all of the proposed changes included in this paper are considered minor and a majority of the respondents agreed with the proposed amendments, Appendices B and C set out the staff's recommendation for any revised wording the staff thinks is necessary.
4. In Appendix B changes are marked-up based on the text included in the Bound Volume as of 1 January 2009. New text is **underlined** and deleted text is **struck** through.

5. In Appendix C changes are shown as mark-up from the ED proposals. Incremental new text is **double underlined** and incremental deleted text is **double struck** through.

6. If the IFRIC confirms these proposed revisions and agrees that they do not need re-exposure as contemplated by the *Due Process Handbook*, the staff will present these amendments at the Board meeting in March 2010.

7. The staff does not intend to discuss the minor issues included in this paper at the IFRIC meeting unless otherwise requested by IFRIC members.

Questions on Minor Issues
Question 1 – Does the IFRIC agree with the staff's assessment included in Appendix A?   Question 2 – Does the IFRIC agree with the staff's recommended editorial revisions included in Appendices B and C?   Question 3 – Are there any specific issues the IFRIC would like to discuss?

Appendix A – Summary and analysis of minor issues included in the Annual Improvements ED

Standard affected	Proposed amendment	Respondent comments	Staff assessment	Staff recommended drafting changes
IFRS 1 *First-time Adoption of International Financial Reporting Standards*	Accounting policy changes in the year of adoption	Additional paragraph 32(c) should include clarification of when (ie in which period) the explanations and updated reconciliations should be provided.	Agreed that there should be further clarity in paragraph 32(c), to differentiate it from paragraph 27A.	See Appendices B.1 and C.1
		The wording of 'this paragraph' in 32(c) is confusing as to whether the paragraph being referred to is paragraph 23 or 32(c).	Agreed that the wording is ambiguous: not clear that it is referring to paragraphs 32(a) and 32(b).	See Appendices B.1 and C.1
		Clarification needed in the wording of paragraph 27A of the disclosure required.	Agreed that paragraph 27A needs to be made clear about disclosure required and which period it is referring to.	See Appendices B.1 and C.1
		Clarification of paragraph 27 to reflect that IAS 8 only applies after the end of the first IFRS period.	Agreed with comment for additional clarity: word 'after' is added to paragraph 27.	See Appendices B.1 and C.1

IASB Staff paper
Appendix A

Standard affected	**Proposed amendment**	**Respondent comments**	**Staff assessment**	**Staff recommended drafting changes**
		Paragraph 32(c) should be re-worded to require the entity to 're-perform' reconciliations and not 'update' them.	Staff considers 'update' is the correct wording to use.	None
IAS 1 *Presentation of Financial Statements*	Clarification of statement of changes in equity	The proposed wording suggests all the items in paragraph 106 of IAS 1 can be presented in the notes only. This is inconsistent with the requirements in paragraph 10 of IAS 1.	Agreed that the wording is ambiguous: need to clarify that presentation of reconciliation requirements for classes of accumulated other comprehensive income is permitted in the notes.	See Appendices B.2 and C.2
		Paragraph 107 is seen as not redundant with paragraph 106(d). In accordance with paragraph 106(d), an entity should disclose the total amount of distributions to owners which includes dividends but also other operations such as redemption of shares. Removing partially paragraph 107 would allow entities to provide only the total amount of distribution to owners and not the dividends recognised as distributions, which is also a useful piece of information for users of financial statements [CL 49, CL51].	Agreed: the current wording of par. 107 should be retained.	See Appendices B.2 and C.2

Standard affected	Proposed amendment	Respondent comments	Staff assessment	Staff recommended drafting changes
IAS 27 *Consolidated and Separate Financial Statements*	Transition requirements for amendments made as a result of IAS 27 (as amended in 2008) to IAS 21, IAS 28	In some (probably rare) cases, entities might have applied IAS 27's consequential changes retrospectively. The current transition amendment would seem to require the effects of retrospective application to be reversed (i.e. be required to apply this transition amendment retrospectively to achieve prospective application of the original IAS 27 consequential changes). We suggest this transition amendment should be applied prospectively. [CL 26]	The staff does not agree with this comment. The commenter acknowledges this situation would be 'probably rare', especially given that this issue was deliberated by the Board in May 2009 and included in the ED published in August 2009.	No change proposed to ED wording.

Standard affected	**Proposed amendment**	**Respondent comments**	**Staff assessment**	**Staff recommended drafting changes**
	and IAS 31	We question whether this amendment really represents an *amendment* in the narrow sense or rather an *editorial correction* as the respective Observer Note indicates that it was the original Board intention to require prospective application and that the lack of explicit transitional provisions for the adoption of the respective consequential amendments was simply an editorial oversight. If this is the case, the amendments should be applicable as soon as the IASB had discovered the mistake and announced this, ie the time when the IASB Update, May 2009, had been published. [CL 6]	While the staff believes that the transition (and all other) provisions of all IFRS are important and should be followed, the staff recommend constituents include a review of the Board's current projects in their analysis of the impact of IFRSs on the constituent. This will ensure the most efficient and effective preparation of IFRS financial statements. Additionally, the staff note that Observer Notes are prepared by the staff prior to Board meetings for use as a starting point of deliberation by the Board. Observer Notes are never authoritative (as specified in the disclaimer).	No change proposed to ED wording.

IASB Staff paper
Appendix A

Standard affected	**Proposed amendment**	**Respondent comments**	**Staff assessment**	**Staff recommended drafting changes**
		Respondent believes the intention is that the consequential amendment to IAS 39 should also be applied prospectively, but because that amendment refers to paragraphs 48-49 of IAS 21 that were also amended by the amendment to IAS 27, the IASB has taken the view that it is not necessary to also clarify that the IAS 39 consequential amendment should be applied prospectively. [CL 49]	The staff agrees with the respondent's comment. The amendment to IAS 39 only added a definitive reference to IAS 21. The Board is clarifying the consequential amendment to IAS 21 should be applied prospectively. The staff believes no additional amendment to IAS 39 is necessary.	No change proposed to ED wording.
IFRIC 13 *Customer Loyalty Programmes*	Fair value of award credits	Any change in measuring the fair value of award credits following the new proposed clarification to paragraphs AG2 and IE1 of IFRIC 13 should be regarded as a change in accounting policies. [CL 6, CL 49]	The staff does not agree with this comment. AG2 as currently drafted states that there is a measurement difference between the award credits and the awards for which they could be redeemed, the difference being AG2(a) and (b). Therefore, the staff does not propose to change the accounting treatment or measurement basis, but only to clarify terms.	No change proposed to ED wording.

IASB Staff paper
Appendix A

Standard affected	**Proposed amendment**	**Respondent comments**	**Staff assessment**	**Staff recommended drafting changes**
		Recommend retaining the term "fair" in par. AG2(a) to qualify the value of awards on which an estimate of the fair value of award credits is based [CL 29, CL 52].	The staff agrees clarification is needed to qualify the value of awards in par. AG2(a): the value of awards reflects the amount of discounts or incentives that would be offered to customers who have not earned award credits from an initial sale.	See Appendices B.3 and C.3
		The additional wording in IE1 implies an award that can be redeemed for cash. Suggest that wording be modified to reflect possible redemption in goods [CL 52].	The staff agrees.	See Appendices B.3 and C.3

Appendix B – Staff's recommended drafting changes to selected minor issues included in the ED – mark-up to BV

B1. All proposed changes are to the Bound Volume as of 1 January 2009. New text is **underlined** and deleted text is **struck** through.

Appendix B.1

Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 27 and 32 are amended. Paragraphs 27A and 39B are added.

Presentation and disclosure

27 IAS 8 does not ~~deal with~~ apply to the changes in accounting policies ~~that occur when~~ an entity makes when it ~~first~~ adopts IFRSs or to changes in those policies until after it presents its first IFRS financial statements. Therefore, IAS 8's requirements ~~for disclosures~~ about changes in accounting policies do not apply in an entity's first IFRS financial statements.

27A If during the period covered by its first IFRS financial statements an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes between its first IFRS interim financial report and its first IFRS annual financial statements, in accordance with paragraph 23, and it shall update the reconciliations required by paragraph 24(a) and (b).

32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:

(a) Each such interim financial report shall, if the entity presented an immediately preceding financial year, include:

(i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and

(ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.

(b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

(c) <u>If an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in each such interim report in accordance with paragraph 23 and update the reconciliations required by paragraphs 32(a) and (b).</u>

Effective date

39B *Improvements to IFRSs* issued in April 2010 added paragraph 27A and amended paragraphs 27, 32 [and D8]. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs BC97-BC99 are added. A heading is added after paragraph BC96.

This Basis for Conclusions accompanies, but is not part of, the amendments.

Presentation and disclosure

Interim financial reports

Accounting policy changes in the year of adoption

BC97 The Board decided clarify whether a first-time adopter is exempt from all the requirements of IAS 8 for the interim and annual periods presented in its first IFRS financial statements. If IAS 8 does not apply, what, if any, requirements apply when an entity changes its accounting policies between the first interim financial statements it presents in accordance with IFRSs and its first annual financial statements. A similar question arises with respect to changes an entity might make in the IFRS 1 exemptions it chooses to apply.

BC98 The Board concluded that to comply with IFRS 1’s requirement to explain its transition to IFRS, an entity should be required to explain any changes in its accounting policies or IFRS 1 exemptions it applied between its first IFRS interim financial report and its first IFRS annual financial statements. The Board decided that the most useful information it could require was updated reconciliations between previous GAAP and IFRSs.

Appendix B.2

Amendment to IAS 1 *Presentation of Financial Statements*

Paragraphs 106 and 107 are amended. Paragraphs 106A and 139D are added.

Structure and content

Statement of changes in equity

106 An entity shall present a statement of changes in equity <u>as required by paragraph 10. The statement of changes in equity includes the following information</u> ~~showing in the statement~~:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) ~~for each component of equity,~~ <u>total amount showing</u> the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) [deleted]

(d) ~~for each component of equity,~~ a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) ~~each item of~~ other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

106A An entity shall present an analysis for each item of information required by paragraphs 106(b) and 106(d) in the notes or in the statement of changes in equity.

107 An entity shall present, either in the statement of <u>changes in</u> equity or in the notes, the amounts of dividends recognised as distributions to owners during the period, and the related amount <u>of dividends</u> per share.

Transition and effective date

139D Paragraphs 106 and 107 were amended and paragraph 106A was added by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on amendment to IAS 1 *Presentation of Financial Statements*

A heading is added after paragraph BC74 and paragraph BC74A is added.

This Basis for Conclusions accompanies, but is not part of, the amendment.

Statement of changes in equity

Reconciliation for each component of other comprehensive income (paragraph 106(d))

BC74A The Board decided to clarify its intention in paragraph 106(d) to require a reconciliation between the carrying amount (beginning and ending balances) for each component of other comprehensive income. Some respondents believed this requirement was excessive. In addition, some pointed out an inconsistency between the current wording of paragraph 106(d) and the example of the statement of changes in equity within the guidance on implementing IAS 1 Part I: Illustrative presentation of financial statements. The Board confirmed its intention to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income. Therefore, the Board clarified that entities are permitted to present the reconciliation requirements for classes of accumulated other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Appendix B.3

Amendment to IFRIC 13 *Customer Loyalty Programmes*

Paragraph 10A is added.

Effective date and transition

10A Paragraph AG2 was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

In the Appendix, paragraph AG2 is amended.

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~~ the award credits takes into account:

(a) the amount of the discounts or incentives ~~fair value of awards~~ that would otherwise 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.

Amendment to illustrative examples accompanying IFRIC 13

Paragraph IE1 is amended. Paragraphs IE2–IE5 are not proposed for amendment but are included here for ease of reference.

Example 1 – Awards supplied by the entity

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management estimates the fair value of groceries for which each loyalty point can be redeemed to be 1.25 currency units (CU1.25). This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, m~~M~~anagement expects only 80 of these points to be redeemed. Therefore, the fair value of each point is CU1, being the value of each loyalty point granted of CU1.25 reduced to take into account points not expected to be redeemed ((80 points/100 points) × CU1.25 = CU1). Accordingly, m~~M~~anagement ~~estimates the fair value of each loyalty point to be one currency unit (CU1), and~~ defers recognition of revenue of CU100.

Year 1

IE2 At the end of the first year, 40 of the points have been redeemed in exchange for groceries, ie half of those expected to be redeemed. The entity recognises revenue of (40 points/80[1] points) × CU100 = CU50.

Year 2

IE3 In the second year, management revises its expectations. It now expects 90 points to be redeemed altogether.

IE4 During the second year, 41 points are redeemed, bringing the total number redeemed to 40[2] + 41 = 81 points. The cumulative revenue that the entity recognises is (81 points/90[3] points) × CU100 = CU90. The entity has recognised revenue of CU50 in the first year, so it recognises CU40 in the second year.

Year 3

IE5 In the third year, a further nine points are redeemed, taking the total number of points redeemed to 81 + 9 = 90. Management continues to expect that only 90 points will ever be redeemed, ie that no more points will be redeemed after the third year. So the cumulative revenue to date is (90 points/90[4] points) × CU100 = CU100. The entity has already recognised CU90 of revenue (CU50 in the first year and CU40 in the second year). So it recognises the remaining CU10 in the third year. All of the revenue initially deferred has now been recognised.

[1] total number of points to be redeemed

[2] number of points redeemed in year 1

[3] revised estimate of total number of points expected to be redeemed

[4] total number of points still expected to be redeemed.

Basis for Conclusions on amendment to IFRIC 13 *Customer Loyalty Programmes*

A heading is added after paragraph BC14 and paragraph BC14A is added.

This Basis for Conclusions accompanies, but is not part of, the amendment.

Measuring the fair value of award credits

BC14A The Board was made aware that paragraph AG2 could be interpreted to mean that the fair value of redemption awards is equal to the fair value of award credits because 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. To address this, the Board amended paragraph AG2 and Example 1 in the illustrative examples to clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the value of the awards for which they could be redeemed must be adjusted to reflect expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.

Appendix C – Staff's recommended drafting changes to selected minor issues included in the ED – mark-up to ED

C1. All proposed changes are to the Exposure Draft of proposed *Improvements to IFRSs*, published in August 2009. Incremental new text is **double underlined** and incremental deleted text is **double struck** through.

Appendix C.1

~~Proposed~~ Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs 27, 27A, 32 and 39B are amended

Presentation and disclosure

27 IAS 8 does not apply to the changes in accounting policies an entity makes when it adopts IFRSs or to changes in those policies until after it presents its first IFRS financial statements. Therefore, IAS 8's requirements about changes in accounting policies do not apply in an entity's first IFRS financial statements.

27A If during the period covered by its first IFRS financial statements an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes between its first IFRS interim financial report and its first IFRS annual financial statements, in accordance with paragraph 23, and it shall update the reconciliations required by paragraph 24(a) and (b).

32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:

(a) Each such interim financial report shall, if the entity presented an immediately preceding financial year, include:

(i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under IFRSs at that date; and

(ii) a reconciliation to its total comprehensive income in accordance with IFRSs for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.

(b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) or a cross-reference to another published document that includes these reconciliations.

(c) If ~~during the period covered by its first IFRS financial statements,~~ an entity changes its accounting policies or its use of the exemptions contained in this IFRS, it shall explain the changes in each such interim report in accordance with paragraph 23 and update the reconciliations required by ~~this~~ paragraphs 32(a) and (b).

Effective date

39B *Improvements to IFRSs* issued in April 2010 added paragraph 27A and amended paragraphs 27, 32 [and D8]. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Basis for Conclusions on ~~proposed~~ amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraphs BC1-BC3 are amended.

This Basis for Conclusions accompanies, but is not part of, the ~~proposed~~ amendments.

Accounting policy changes in the year of adoption

BC97~~1~~ The Board ~~received a request~~ decided to clarify whether a first-time adopter is exempt from all the requirements of IAS 8 for the interim and annual periods presented in its first IFRS financial statements. If IAS 8 does not apply, ~~the Board was asked~~ what, if any, requirements apply when an entity changes its accounting policies between the first interim financial statements it presents in accordance with IFRSs and its first annual financial statements. A similar question arises with respect to changes an entity might make in the IFRS 1 exemptions it chooses to apply.

~~BC2 The Board noted that IFRS 1 requires an entity to explain how transition from a different accounting framework to IFRSs affected its reported financial position, results and cash flows. In particular, IFRS 1 requires reconciliations of profit or loss and of equity reported under previous GAAP to those under IFRSs at both the date of transition to IFRSs and the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP. If an entity presents interim financial reports in accordance with IAS 34, its first interim financial report for part of the period covered by its first IFRS financial statements must include those reconciliations.~~

BC98~~3~~ The Board concluded that to comply with IFRS 1's requirement to explain its transition to IFRS, an entity should be required to explain any changes in its accounting policies or IFRS 1 exemptions it applied between its first IFRS interim financial report and its first IFRS annual financial statements. The Board decided that the most useful information it could require was updated reconciliations between previous GAAP and IFRSs.

Appendix C.2

~~Proposed~~ Amendment to IAS 1 *Presentation of Financial Statements*

Paragraph 106 and 107 are amended. Paragraph 106A and 139D are added.

Structure and content

Statement of changes in equity

106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information ~~showing in the statement or in the notes~~:

(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests;

(b) ~~for each component of equity,~~total amount showing the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8; and

(c) [deleted]

(d) ~~for each component of equity,~~ a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) ~~each item of~~ other comprehensive income; and

(iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

106A An entity shall present an analysis for each item of information required by paragraphs 106(b) and 106(d) in the notes or in the statement of changes in equity.

107 An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share ~~of dividends recognised as distributions to owners~~.

Transition and effective date

139D Paragraphs 106 and 107 were amended and paragraph 106A was added by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on ~~proposed~~ amendment to IAS 1 *Presentation of Financial Statements*

A heading is added and paragraph BC1 is amended. Paragraph BC2 is deleted.

This Basis for Conclusions accompanies, but is not part of, the ~~proposed~~ amendment.

Statement of changes in equity

Reconciliation for each component of other comprehensive income (paragraph 106(d))

BC74A~~1~~ The Board ~~was asked to~~decided to clarify its intention in paragraph 106(d) to require a reconciliation between the carrying amount (beginning and ending balances) for each component of other comprehensive income. Some respondents believed this requirement was excessive. In addition, some pointed out an inconsistency between the current wording of paragraph 106(d) and the example of the statement of changes in equity within the guidance on implementing IAS 1 Part I: Illustrative presentation of financial statements. The Board confirmed its intention to allow flexibility on the reconciliation requirements for classes of accumulated other comprehensive income. Therefore, the Board ~~proposes to~~ clarif~~y~~ied that entities are permitted to present the reconciliation requirements for classes of accumulated other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

~~BC2~~ ~~The Board also proposes to amend paragraph 107 in IAS 1 to remove a redundancy based on the amendment to paragraph 106(d).~~

Appendix C.3

~~Proposed~~ Amendment to IFRIC 13 *Customer Loyalty Programmes*

Paragraph 10A is amended.

Effective date and transition

10A Paragraph AG2 was amended by *Improvements to IFRSs* issued in April 2010. An entity shall apply that amendment for annual periods beginning on or after 1 January 2011. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

In the Appendix, paragraph AG2 is amended.

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 the award credits takes into account:

(a) the amount of the discounts or incentives ~~value of awards~~ that would be otherwise 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.

~~Proposed~~ Amendment to illustrative examples accompanying IFRIC 13

Paragraph IE1 is amended. Paragraphs IE2–IE5 are not proposed for amendment but are included here for ease of reference.

Example 1 – Awards supplied by the entity

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management estimates the fair value of groceries for which ~~that~~ each loyalty point can be redeemed ~~for~~ to be 1.25 currency units (CU1.25). This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale.

In addition, m~~M~~anagement expects only 80 of these points to be redeemed. Therefore, the fair value of each point is CU1, being the value of each loyalty point granted of CU1.25 reduced to take into account points not expected to be redeemed ((80 points/100 points) × CU1.25 = CU1). Accordingly, management defers recognition of revenue of CU100.

Year 1

IE2 At the end of the first year, 40 of the points have been redeemed in exchange for groceries, ie half of those expected to be redeemed. The entity recognises revenue of (40 points/80[1] points) × CU100 = CU50.

Year 2

IE3 In the second year, management revises its expectations. It now expects 90 points to be redeemed altogether.

IE4 During the second year, 41 points are redeemed, bringing the total number redeemed to 40[2] + 41 = 81 points. The cumulative revenue that the entity recognises is (81 points/90[3] points) × CU100 = CU90. The entity has recognised revenue of CU50 in the first year, so it recognises CU40 in the second year.

Year 3

IE5 In the third year, a further nine points are redeemed, taking the total number of points redeemed to 81 + 9 = 90. Management continues to expect that only 90 points will ever be redeemed, ie that no more points will be redeemed after the third year. So the cumulative revenue to date is (90 points/90[4] points) × CU100 = CU100. The entity has already recognised CU90 of revenue (CU50 in the first year and CU40 in the second year). So it recognises the remaining CU10 in the third year. All of the revenue initially deferred has now been recognised.

[1] total number of points to be redeemed

[2] number of points redeemed in year 1

[3] revised estimate of total number of points expected to be redeemed

[4] total number of points still expected to be redeemed.

Basis for Conclusions on ~~proposed~~ amendment to IFRIC 13 *Customer Loyalty Programmes*

Paragraph BC1 is amended.

This Basis for Conclusions accompanies, but is not part of, the ~~proposed~~ amendment.

Measuring the fair value of award credits

BC14A The Board was made aware that paragraph AG2 could be interpreted to mean that the fair value of redemption awards is equal to the fair value of award credits because 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. To address this, the Board ~~proposes to~~ amended paragraph AG2 and Example 1 in the illustrative examples to clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the value of the awards for which they could be redeemed must be adjusted to reflect expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale.