Project	**Fair Value Measurement**
Topic	**Other scoping considerations – supplement**

Purpose of this paper

1. After developing Agenda Paper 3C, the IFRIC discussed proposed amendments to IFRIC 13 *Customer Loyalty Programmes* in the March meeting (see Agenda Paper 5A). After the IFRIC meeting the staff became aware of a potential conflict between IFRIC 13 and the proposed fair value measurement guidance. This issue was not raised in any of the comment letters on the exposure draft *Fair Value Measurement*

2. This paper asks the Board to consider whether an IFRS on fair value measurement should exclude IFRIC 13 from its scope.

Staff analysis and recommendation

3. Paragraph 6 of IFRIC 13 requires the consideration allocated to award credits to be measured by reference to their fair value. Paragraph AG2 states that 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.

4. In accordance with the proposed fair value measurement guidance, an entity would measure the **fair value of the award credits** as the price that would be paid to transfer the liability in an orderly transaction between market participants. This means that the fair value of the award credits would be measured by reference to the price that another market participant (a similar entity) would hypothetically demand to take on the liability.

5. However, paragraph BC7 in the Basis for Conclusions of IFRIC 13 states that the liability is measured by reference to the value of the award credits to the customer (not their cost to the entity) and recognised as an allocation of revenue (not as an expense). In other words, the measurement of award credits in IFRIC 13 represents an allocation of the sales revenue received from the customer. The term 'fair value' in this case is used to describe the value attributable to the portion of revenue being allocated, rather than the price a market participant would demand to take on the liability.

6. In addition, IFRIC 13 states that 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. Based on the proposed fair value measurement guidance, an entity might measure the fair value of the awards using retail prices or wholesale prices depending on that entity's assessment of the exit market for the awards. The staff thinks that the intention of IFRIC 13 is to use the retail selling price because the objective is to allocate the sales revenue received from the customer.

7. Consequently, the staff does not think that the use of the term 'fair value' in IFRIC 13 is consistent with the proposed fair value measurement guidance in the IASB's exposure draft. As a result, the Board needs to consider IFRIC 13 with regard to the scope of an IFRS on fair value measurement.

8. The Board can follow one of two approaches in dealing with IFRIC 13 and the scope of an IFRS on fair value measurement.

    (a) **Approach 1**: The Board can exclude IFRIC 13 from the scope of an IFRS on fair value measurement. This approach would result in IFRIC 13 using the term 'fair value' and retaining the current definition of fair value. However, even though IFRIC 13 refers to fair value, it will not be subject to the measurement and disclosure requirements of an IFRS on fair value measurement.

    (b) **Approach 2**: The Board can replace the term 'fair value' with another term in IFRIC 13. However, if the Board decides to replace the term 'fair value' with another term, the Board should keep the following in mind:

(i) the Board will have to provide additional measurement guidance. It is not within the scope of the fair value measurement project to provide such guidance.

(ii) the IASB, jointly with the FASB, is reviewing the accounting for revenue recognition. Both Boards have tentatively decided on a customer consideration model (ie not fair value) to measure the revenue. The boards plan to issue the final standard by June 2011. The IFRS on revenue recognition will replace IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 as well as other interpretations. Consequently, any changes made to IFRIC 13 will be replaced by the new IFRS on revenue.

9. The staff recommends Approach 1 for practical reasons. This is because this approach does not require entities to make two changes in a short space of time when the new IFRS on revenue replaces IFRIC 13.

Question 1
Does the Board agree with the staff recommendation in paragraph 9? If not, why not, and what would the Board propose and why?