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S. Chapple
University of Wollongong, schapple@uow.edu.au

L. Moerman
University of Wollongong, leem@uow.edu.au

Kathy Rudkin
University of Wollongong, krudkin@uow.edu.au

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Keywords

IFRIC 13, revenue recognition, customer loyalty programmes

Disciplines

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Customer Loyalty Programmes: IFRIC13 and the ambiguities of revenue recognition

Sandra Chapple*
School of Accounting and Finance
University of Wollongong

Lee Moerman
School of Accounting and Finance
University of Wollongong

Kathy Rudkin
School of Accounting and Finance
University of Wollongong

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* Corresponding Author

Sandra Chapple
School of Accounting and Finance
University of Wollongong
NSW 2522 AUSTRALIA
Telephone: (61 2) 4221 4006
Facsimile: (61 2) 4221 4297
Email: schapple@uow.edu.au

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ABSTRACT

From 1 July 2008 IFRIC 13 becomes mandatory in Australia, requiring a standardised deferred revenue treatment to account for a plethora of Customer Loyalty Programmes (CLP). This paper highlights the diverse views of appropriate classification, and the ambiguities faced by those accounting for CLP. A text based analysis of documents pertaining to IFRIC 13 shows the International Financial Reporting Interpretations Committee (IFRIC) to be committed to a principles based approach in making its interpretation. While IFRIC members were responsive to the concerns of interested parties, they were not subservient to the ensuing lobbying process.

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INTRODUCTION

From 1st July 2008 reporting entities in Australia must apply IFRIC 13 *Customer Loyalty Programmes*[1] (IFRIC, 2007). While frequent flyer miles and reward flights have become standard practice in the airline industry, IFRIC 13 also deals with the plethora of other programmes that have emerged, including those from credit card providers and those that use a third party to provide rewards. In an attempt to standardise alleged widespread and divergent accounting practices arising from award credits or points given to customers, IFRIC 13 provides guidance on the recognition of revenue consistent with IAS 18 *Revenue.* This guidance requires entities to follow the deferred revenue approach, by allocating a proportion of sales consideration to a liability account, and recognising income from CLP when the awards are redeemed.

The prevalence and competitiveness of CLP have spawned various forms of schemes under different guises. However they are generally established by entities to encourage customers to buy their goods and services. Customers may accumulate points or awards and redeem them in the future for a particular good or service, often from a huge range of options, which may be provided by the entity or a third party. Alternatively, points or awards

[1] Released in August 2007 as AASB Interpretation 13 for adoption by reporting entities from I July 2008 under AASB1048 *Interpretation and Application of Standards* in September 2007.

may be linked to certain custom over a period of time, or offered by way of a welcome to the customer.

New products, such as CLP, must be categorised as asset, liability, revenue and expense for recognition in financial statements (Young, 2003). How an item is classified by standard setters may materially impact an entity's results. The International Financial Reporting Interpretations Committee (IFRIC) interpreted CLP as a revenue recognition issue, bringing CLP within the ambit of IAS18 *Revenue*. CLP could have been equally interpreted as a cost/provision issue within the requirements of IAS37 *Provisions, Contingent Liabilities and Assets*. In the context of commercial practice IFRIC 13 has generated contention, as evidenced in the comment letters received in response to the draft interpretation D20 *Customer Loyalty Programmes* (D20) (IFRIC, 2006b).

The ambiguities encountered by practitioners and their advisors in the application of the framework to the innovative commercial practice of CLP are explored. The resolution found in IFRIC 13 demonstrates the robust nature of a principles based approach to standard setting, in that it is responsive to but not subservient of the lobbying process of interested parties.

The next section describes the IFRIC process with specific reference to IFRIC13. This is followed by a discussion of the method used to analyse the comment letters and a discussion of the issues raised. Because of the high

profile of CLP in the airline and banking industries, issues pertinent to these industry sectors are specifically discussed.

INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS

IFRIC was established in March 2002 by the Trustees of the International Accounting Standards Committee Foundation (IASCF), to act in conjunction with the International Accounting Standards Board (IASB) to improve financial reporting through timely identification, discussion and resolution of financial reporting issues (IASCF, 2007, p.4). Generally, IFRIC reviews newly identified reporting issues that have not been covered in existing International Financial Reporting Standards (IFRS) or, where unsatisfactory or conflicting interpretations have emerged, resolves issues in order to reach a consensus on appropriate treatments (IASCF, 2007, p.4). The treatments advocated by IFRIC are to be consistent with IFRS and the Framework for the Preparation and Presentation of Financial Statements (the Framework), and adopt a principles-based approach (IASCF, 2007, p.5)[2].

Issues for consideration may be put to IFRIC by individuals or organisations. If accepted as an agenda item, IFRIC will request the preparation of an issues summary. A draft interpretation incorporating key issues and alternative treatments is released for comment for a period of not less than 60 days, and after consideration of comment letters and amendments to the interpretation if necessary, a final interpretation is ratified and issued by the IASB.

[2] By definition IFRS include IFRIC Interpretations (IFRS 1 Appendix A).

IFRIC 13 Customer Loyalty Programmes

The clarification of accounting treatment for CLP was requested by the French standard setter, Conseil National de la Comptabilite in 2005, which was then asked by IFRIC to prepare an issues paper. Despite the FASB and IASB engagement in a joint project on revenue recognition initiated in September 2002, IFRIC felt it necessary to provide guidance on CLP prior to resolution of the revenue project. Staff from the Conseil National de la Comptabilite tabled an issues paper with IFRIC in November 2005 (IFRIC 2005, 4). The draft interpretation, D20 was released by IFRIC in September 2006 with 59 comment letters received by the due date of 6th November, 2006 (see Appendix 1). After consideration of comment letters and minor amendments to D20, the final version was released by IFRIC and approved by the IASB at its June 2007 meeting, roughly two years after being brought to the table. IFRIC 13 is substantively consistent with D20, although IFRIC did make some concessions in response to concerns raised by commentators to the draft interpretation.

IFRIC 13 is limited to schemes where an entity grants awards to its customers as part of a sales transaction and customers can redeem the awards in the future for free or discounted goods or services. As such, IFRIC 13 does not apply to other types of schemes, such as where incentives are offered in the absence of a sale or where award credits are sold separately. IFRIC 13 specifically includes schemes where the obligation to supply the goods or services is taken up by a third party.

IFRIC 13 addresses issues of recognition of CLP within the framework of IAS 18. IAS 18 paragraph 14 is specific to recognition criteria in respect of the sale of goods. Paragraph 13 notes that the recognition criteria is usually applied separately to each transaction, however in some cases it is necessary to apply the criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. One accounting option for CLP, therefore, is to split the initial transaction into the two components of goods or services and the associated awards. Consideration is allocated using an appropriate method to each component. The amount allocated to the award component is deferred and only recognised as revenue when awards are redeemed. This is the deferred revenue approach (D20 BC5 or Option 2 in Figure 1) and is advocated in D20 and IFRIC 13.

[Bring in Figure 1]

Two alternatives to the deferred revenue approach were offered in D20. Option 1 (D20 BC4), commonly referred to as the cost/provision approach, favours an interpretation of IAS18 paragraph 19. This refers to the recognition of both revenue and expense relating to the same transaction, such as warranties provided after the sale of goods. Accordingly, awards granted pursuant to CLP are marketing expenses, used to entice customers to future sales. The accounting treatment involves recognising as revenue the gross consideration on sale of goods or services, with a provision raised

for the estimated future costs of supplying the awards in accordance with IAS 37. Option 3 (D20 BC6) provides choice of treatment between the deferred revenue and cost/provision method. Choice of the foregoing treatment is dependent on the nature of the CLP. This option is consistent with the principles-based approach advocated by the IASB and IFRIC.

Understanding the process of principles based standard setting and the subsequent interpretations of divergent or anomalous practices is significant, because alternate interpretations potentially alter the redistribution of wealth in society, bringing both costs and benefits to diverse stakeholders (Rappaport, 1977). These economic consequences range from the effect on behaviour of intended and unintended users who rely on reported financial information to the preparers of financial reports. Consideration of the economic impact and consequences was a catalyst for the well established process of issuing an exposure draft with invitations to comment prior to the promulgation of an accounting standard or interpretation. The standard setting process attempts to define economic phenomena, in particular transactions of exchange into predefined categories. This categorisation places an emphasis on the importance of certain phenomena by attempting to create rules for preparers of financial statements. The construction of categories, embodied as measurement and recognition criteria, is controversial as the criteria are both "ambiguous and highly adaptable" (Young, 2003, 621).

METHOD

An insight into the interpretation process and the categorisation of financial statement elements is provided by a review of the development of IFRIC 13. The data used in this study are the 59 comment letters received in response to D20, IFRIC Meeting Papers (January 2007, March 2007, May 2007, June 2007), as well as the text of both D20 and IFRIC13. Of the 59 comment letters only 56 were available to the public from the IFRIC website. This paper applies document analysis to identify preference of method and issues pertaining to revenue recognition and the application of IRFIC 13.

Table 1 below provides a description of the organisations' submissions that were analysed.

[Bring in Table 1 Categorisation of Submissions]

Each comment letter was classified according to country of origin and type of organisation or industry represented. Support for key proposals of D20 by the commentators was identified, namely whether award credits issued pursuant to a CLP constituted a separate component of the initial sales transaction, and if so, how much of the consideration should be allocated to the award and when it should be recognised as revenue. Where commentators articulated a preference for one of the three options (Figure 1) it was noted. Two commentators did not make their preferred accounting treatment clear. Further, additional issues raised in the comment letters were identified and analysed. The texts of the IFRIC meeting papers, D20 and

IFRIC 13 were analysed to identify arguments developed and used to substantiate and reject available options.

DATA ANALYSIS

The comment letters included 30 from regulators, comprising national standard setters, urgent issues or interpretation groups, national and regional professional bodies, and international agencies. Of the submitting bodies, the South African Institute of Chartered Accountants was both a professional body and also the secretariat for the national standard setter. The comment letters from the 26 preparers included those from accounting firms, international companies and representative groups, an auditing firm and an actuarial firm. Because banking and airlines are prominent users of CLP, the corporate responses were further categorised into banking and financial service providers, airlines and other.

[Bring in Table 2 Analysis of Comment Letters]

Accounting Treatment

Only 17 out of 56 commentators opted for the Consensus (Option 2), the deferred revenue approach. Support in some cases was tempered with acknowledgement of the practical difficulties anticipated with implementation, particularly with respect to timing of revenue recognition (CL6), determining fair value (CL21 and CL38) and in separating components of initial sale (CL46). In defending its choice, IFRIC (IASB 2007,p.18) noted that,

> Incentives to customers can be distinguished in substance from marketing expenses. Marketing expenses are incurred independently of a sales transaction, to secure that transaction. Incentives to customers are part of the sales transaction itself – whether they reduce the consideration receivable or increase the goods and services deliverable, they are elements of the market exchange between the entity and its customers.

IFRIC (IASB, 2007, p.19) also noted that "the goods or services for which the loyalty points can be redeemed are inherently completely independent of the goods and services delivered in the initial sale". Further, IFRIC (IASB, 2007, p.17) acknowledged that while awards are typically low in value, it is the nature of the transaction which affects substance, not value.

Option 1 (cost /provision approach) was favoured by 17 of the D20 commentators, with the common view that the nature of awards are akin to marketing expenses. Commentators questioned whether the costs anticipated with implementing the deferred revenue approach would be offset by benefits, such as greater relevance of information, especially when the cost/provision approach is already widely used in practice.

Option 3 (mixed approach) attracted support from 20 of the D20 commentators. Option 3 allows choice between the deferred revenue approach and the cost/provision approach. Commentators suggested that if awards are supplied by the entity as part of normal activities, then the deferred revenue approach is appropriate. If awards are supplied by a third party or are not part of the entity's normal business activities they should be treated as a marketing expense. Commentators also suggested that where

awards were insignificant in value and incidental to the sale of goods or services, they should be treated as a marketing expense or as a deduction from revenue (trade discount or rebate).

Several commentators (CL2, CL3, Cl4, CL10, CL12, CL13, CL22, CL25, CL41, CL47, CL51) noted that in the context of the current joint project between the IASB and the FASB on revenue recognition, IFRIC 13 may be premature or redundant. The European Telecommunications companies (CL10) also suggested that such an interpretation made “prior to the development of a comprehensive framework for multiple component sales” could have “far reaching effects for other component sales”. However, given the long term time frame of the revenue recognition project, an interim solution may “improve the way that IFRS are implemented in the short term” (EFRAG, CL55, p.4).

Table 3 below summarises additional issues identified in the comment letters. These are classified according to sector.

[Bring in Table 3]

The predominant concern for all groups was the assumptions of fair value estimates, followed by scope.

Assumptions of fair value estimates

> *The fair value of the consideration received or receivable in respect of the initial sale shall be allocated between the award components, i.e. the*

> *goods and services sold and the award credits granted* (D20, paragraph 5).

As a separately identifiable component of the initial sale, allocation shall be made by reference to the relative fair value of the components (i.e. the amount for which the award credits could be sold separately). D20 paragraph 6 states that this should take into account any discount offered to customers who have not earned credits from the initial sale, expected future forfeitures and the time value of money (paragraph 7). It was noted by commentators that in the absence of an active market for award credits or where goods and services offered to customers would not otherwise be sold (e.g. airline seats) this method is inappropriate.

Implementing the guidance, especially in respect of forfeitures and time value of money was problematic for many of the commentators (CL11, CL12, CL21, CL22, CL29, CL30, CL34, C355, CL36, CL49, CL51, CL55, CL56). Some commentators felt that IFRIC was being too prescriptive by proposing the use of relative fair value as a means of allocation. Deloitte (CL31) indicated that IAS18 *Revenue* paragraph 9 states that revenue should be measured at fair value (not relative fair value). Ernst and Young (CL38) suggest that the choice of method should be left to the discretion of entities.

In response IFRIC (IASB, 2007, p.23-25) modified the final interpretation to fair value, with the choice of variables left to professional judgement. In instances where the fair value of award credits may not be directly observable, IFRIC13 BC12 notes that an alternate allocation method should

be applied. The Appendix to IFRIC 13 provides application guidance in estimating the fair value of award credits.

Recognition of deferred revenue occurs when award credits are redeemed (D20, paragraph 8). Commentators sought clarification on how to recognise revenue of forfeited awards and changes in expected forfeiture rates. According to the final Interpretation "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" (IFRIC 13, paragraph 7).

Scope

Commentators sought clarification on the types of schemes covered by the Interpretation. UBS (CL32) for example, discussed schemes offered by financial institutions where customers are given awards, such as reductions in interest charges on loans. Commentators also drew attention to schemes where awards may be redeemed to repay outstanding amounts loan balances or redeemed for cash. Clarification was sought as to whether this type of arrangement fell within the scope of the interpretation, or represented a future liability of the entity subject to the principles of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*. The scope of IFRIC 13 only applies where awards were granted as part of a sales transaction (paragraph 3 (a)) and not to other types of loyalty schemes. The final interpretation specifically brought credit card providers within the scope (Basis of Conclusions BC4).

Nine of the commentators requested that schemes which offered awards by way of goods or services not supplied in the ordinary course of business (for example an airline supplying electrical appliances) be scoped out of the Interpretation. IFRIC (IASB, 2007, p.21) notes that "it could be argued that the awards may not be the main activity of the entity, but they are supplied on a recurring basis in the course of its ordinary activities, as an (albeit small) component of its sales to customers". Thus, regardless of the nature of the goods and services provided in satisfaction of the award, if the award is granted as part of the initial sales transaction, it is within the scope of IFRIC 13.

Cost versus benefits

The cost of implementation versus the benefits of relevant and reliable information was an issue, especially for standard setters and professional accounting bodies (13 responses, see Table 3). The National Accounting Standards Board of Russia argued that, in assessing an entity's liabilities, users are interested in the resources available to settle future obligations. Similarly, the Danish Accounting Standards Committee (CL46) suggested that the D20 approach would lead to significant costs for preparers with only limited benefits for users. IFRIC (2007, p.1) acknowledges that "there might be system costs, but …most of the variables that have to be estimated to measure the amount of revenue to allocate to award credits…also have to be estimated to measure the future cost of fulfilling the obligation". In its discussion of cost/benefit issues, IFRIC (2007, p.27) conceded that IFRIC

13 “proposes relatively complex accounting treatments for transactions that are often immaterial”. Accordingly, the materiality guidelines in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* indicate that IFRS need not be applied if the effect of the application is immaterial. Within the final IFRIC 13, cost/benefit issues were relegated to the Basis of Conclusions (BC10 and 11).

Customer Relationships and Intangible Assets

> *Customer loyalty programmes may create or enhance customer relationship intangible assets. Such assets are recognised only if the recognition criteria in IAS 38 are met* (D20 Paragraph 11).

The general public perceive frequent flyer schemes as marketing incentives that are “multibillion dollar assets” for airline companies (Sheehan, 2008). While the focus of D20 is on revenue recognition, the preparers acknowledge the potential for asset recognition. Only one (CL19) out of ten submissions providing comment on this issue was of the opinion that an asset could be created and amortised if it could be demonstrated that the benefits are specifically linked to a particular customer campaign. The other submissions rejected the idea. Three main arguments were first, that IFRIC13 is an interpretation of the accounting standard for revenue and not of IAS 38 *Intangible Assets* (CL27, CL59); secondly, the recognition criteria of an intangible asset would not allow an internally generated asset (CL12, CL22); and thirdly, the situations where it would occur e.g. in a business combination were rare, (CL33, CL43, CL50). IFRIC deleted this section in their final document of IFRIC 13. They acknowledged that IAS 38 was

“peripheral to the issue” and it was “very unlikely” an intangible asset would be created (IFRIC 13, BC22(c)).

Third Party Transactions

> *The entity shall recognise revenue in respect of the award credits …[if a third party assumes the obligation to supply the awards to the customer] when that third party assumes the obligation* (D20 Paragraph 8).

The nexus between the granting of award credits and the supply of the rewards is complicated (see Figure 2). The above paragraph addresses the situation where an entity as principal issues awards to a customer, but a third party assumes the obligation to provide the goods and services. However, D20 did not address the situation where an entity collects revenue (award credits) on behalf of a third party and is acting, in substance, as an agent for a third party. For example, a financial services provider may offer a CLP for their credit card customers. However, the sale for which the customer earns award credits is revenue for the entity selling goods and services. In this case the redemption of awards is not within the ordinary line of business for the credit card provider and the question then arises is whether the credit card provider is the principal or acting as an agent for the third party (CL12).

[Bring in Figure 2]

IFRIC13 paragraph 8 addresses the supply of awards by third parties and reflects a redrafting of the original D20 requirements, acknowledging the

extent of comment regarding this issue. There are situations where an airline provides not only reward flights but offers partner products and services (CL20) or collects award credits on behalf of other airlines (CL22). IFRIC 13 stresses that treatment depends on whether the awards are supplied by the entity on its own behalf (i.e. principal) or as an agent for the third party. If the entity is acting on its own behalf, then it should account for the award as it would have done if supplying the goods itself. If the entity is acting as an agent for a third party, revenue recognised will be the net amount retained by the entity, that is the consideration allocated to the award credits less the amount payable to the third party. Revenue should be recognised when the third party is obliged to supply the awards and entitled to receive the consideration, usually when the awards are granted (CL31, 2). If the customer can claim the awards from either the entity or the third party, revenue recognition would be when the customer makes a claim for the awards. IFRIC13 provides an example in the Appendix on the accounting treatment where awards are supplied by a third party. However, as one commentator argued, regardless of the relationship with the third party the ultimate obligation is with the entity offering the award credits since it is this entity that customers will look to if the third party fails to supply rewards (CL28). Another issue raised by D20 commentators, but not adequately addressed by IFRIC 13, is the complication in revenue recognition arising where there are multiple participants in a CLP and customers have multiple options regarding award redemption.

Airlines

CLP gained prominence with the airline industry and the financial services sector. There were three comment letters from airlines (CL20, CL22, CL35), and references to the airline industry by other commentators (CL12, CL14, CL16, CL34, CL42, CL55). All three of the airlines supported the cost/provision approach, although South African Airways acknowledged that there may be situations where the deferred revenue method might be appropriate. Each of the airlines presented different arguments for retention of their current accounting practice of accruing costs as a liability. Finnair (CL20) noted that the value of an award is not calculable from the sales transaction, and that frequent flyer points are granted regardless of the amount of the sales transaction, based on kilometres or miles travelled. Further, there is no direct relationship between the revenue and the award when different carriers are responsible for different legs of the journey. South African Airways (CL22) suggests that awards are granted to customers to encourage ongoing sales, and are marketing expenses. As highlighted by British Airways (CL35), the seats typically offered under these programmes would not have been otherwise sold (minimal value to airline) while the value of the awards vary significantly depending on many factors such as routes, time of flight, time of reservation and various promotional activities of the airlines. Anecdotal evidence would suggest that customers encounter enormous difficulties in redeeming these types of awards, and the airlines make it an almost impossible feat, …"no Qantas flights have seats available at any time [to and from Australia during 2008]" (Sheehan, 2008, p.11), such that customers may place little value on such

CLP, especially individual transactions. At best, the value perceived by customers may only be assigned over the long term through loyalty.

The Airline Accounting Guideline issued by the International Air Transport Association in conjunction with KPMG (IATA, 1995) acknowledges the cost/provision and the deferred revenue approaches, but certainly seems to favour the former. The guideline states that "Frequent Flyer Programmes (FFPs) have now been introduced by many international airlines, principally to induce higher levels of repeat business" (International Air Transport Association, 1995, paragraph 1.1). It goes on to state that "the extent of marketing benefits [by the airline] is partly dependent on its ability to handle extra traffic generated by the FFP [frequent flyer program], whilst not displacing fare paying passengers" (International Air Transport Association, 1995, paragraph 1.4). Further, "it is recognised that airlines…are committing themselves to future liabilities arising from servicing the FFP" (International Air Transport Association, 1995, paragraph 1.5) and that historically airlines have used the incremental cost (cost/provision) approach (International Air Transport Association, 1995, paragraph 5.4).

The material impact of IFRIC 13 for the airline Qantas is demonstrated. Qantas adopted IFRIC 13 early, applying it to the half year financial statements ended December 2007. Resulting from the adoption of IFRIC 13, for the half year ended December 2006, net assets declined by 8% and profit after tax declined by 14%. Similarly in the period ended December

2007 and net assets were reduced by 9% and profit after tax fell by 7% (Qantas, 2007).

Banks and financial service providers

There were five submissions by banks or banking representative groups, of which only one (CL17 FirstRand Bank) supported the treatment advocated by IFRIC. The other commentators (CL2 British Bankers Association, CL23 European Association of Co-operative Banks, CL32 UBS, CL37 HSBC) supported the cost /provision approach, consistent with practice. These banks provided five arguments to support their preferred option (BC4). First the commercial reality of CLP is that of incentive (CL23, CL37). Secondly, the option is easier to apply in practice (CL2, CL23, CL32, CL37). Thirdly, this treatment is consistent with practice outside D20 (CL2, CL37). Fourthly, the value of awards is insignificant in comparison with the sales transaction as a whole (CL23), and fifthly the benefits of advocated treatment would not outweigh costs, such as costs required by significant system changes (CL32). Both airlines and the financial services sector provided limited support for the adoption of IFRIC 13, noting commercial 'reality' as a significant barrier to implementation.

DISCUSSION

> *Given the ambiguity and indeed fluidity of accounting categories and classifications and the consequent controversy surrounding the standard setting process, this process may be regarded as an exercise in persuasion.*
> (Young, 2003, p.622)

Parties lobbying IFRIC with respect to CLP were seeking clarification on an appropriate accounting treatment. IFRIC classified CLP as a revenue recognition problem. Interested parties suggest that this choice was controversial with 37 of the 56 comment letters not supporting IFRIC's preference of the deferred revenue approach. Further, the D20 proposal was ambiguous with respect to scope, fair value estimation, and treatment of third party transactions (Table 3). It also allowed the preparers to utilise discretion in various inputs, including estimation of redemption rates, allocation of proportion of deferred revenue and timing of redemption of awards.

The interpretation process is shown to be an exercise in persuasion for IFRIC. Despite compelling arguments presented by commentators, IFRIC maintained its initial stance of treating CLP as a revenue recognition problem. The lobbying process involving the submission of comment letters revealed the interests and attitudes of the various parties. However, IFRIC, while acknowledging these submissions, was not moved. IFRIC in turn used persuasive rationales to justify its position. While commitment from IFRIC was demonstrated in seeking and giving due consideration to submissions in the form of comment letters, IFRIC sought a principles based solution. This was done rather than succumbing to lobbying by dominant interested parties.

CONCLUSION

This paper provides a snapshot of one international standard setting process, which is shown as a forum for voicing stakeholders' interests and for providing guidance in the context of the Framework. It highlights the challenges of classification faced by standard setters in their attempts to codify innovative commercial practices, in particular, the ambiguities of implementing IAS 18 with respect to CLP. It supports Young's (2003, p.621) assertion

> With each issuance of a new standard, new items are called expense and revenue or asset or liability; new things are measured; and new things are disclosed. As these things are fitted into the old categories, the categories are stretched and perhaps twisted and are themselves altered – subtly at times and not so subtly at other times.

IFRIC 13 advocates a deferred revenue (liability) approach (Option 2) for the accounting treatment and relies upon IAS 18 paragraph 13 as guidance. Rights are granted as an element of market exchange which are separately identifiable components of a transaction (sale), and are measured at fair value. The principles based approach (Option 3), which advocates that the accounting treatment is dependent on the nature of the CLP, is dismissed although it was the most popular choice by the stakeholders.

This analysis of IFRIC13 demonstrates the ambiguities and complexities of revenue recognition, highlighting the role of interpretation in making accounting classifications. D20 and IFRIC 13 involve complex arguments for the classification of economic phenomena. This paper gives visibility to the role standard-setters play in mitigating the effects of lobbying of the

standard setting process, through the assigning, reassigning, and negotiation of meanings to accounting concepts and principles (Young, 2003).

The recognition and measurement of CLP involves decisions about the nature of awards, such as whether they are an expense, asset, revenue or liability. The ensuing classification has economic consequences in terms of revenue recognition and the subsequent timing of reporting income, as shown in the case of the early adoption of IFRIC 13 by Qantas.

This paper is limited in that is uses only one case of interpretation, IFRIC 13, to explore the arguments surrounding the application of the interpretation to commercial practices. Although premature for this study, a further area for research is identified as other entities adopt IRFIC 13. Such studies could elucidate the impact on interested parties of the implementation of IFRIC 13 in mid 2008 to the area of earnings management. The methods of rhetorical analysis of standard setting texts used by Masocha and Weetman (2007), and an analysis of the politicisation of the standard setting process (Rappaport, 1977) are suggested as suitable methods for this future analysis.

In conclusion, the example of IFRIC 13 demonstrates ambiguities associated with accounting standards in an environment of innovative commercial practices and interested party lobbying. IFRIC is shown to be responsive but not subservient to the lobbying process of interested parties, despite

arguments that the chosen deferred revenue approach not reflecting the nature and diversity of a significant number of CLP.

Appendix 1 D20 Comment letters received

Letter Number	Submitter/Organisation	Country	Industry/Type of Organisation
CL – 1	Elmar Venter (Accounting Academic	South Africa	University
CL – 2	British Bankers' Association	UK	UK Financial Institution
CL - 3	Dutch Accounting Standards	Netherlands	Standard Setter
CL – 4	Accounting standards Board Urgent Issues Task Force (UITF)	UK	Standard Setter
CL – 5	Malayasian Accounting Standards Board (MASB)	Malaysia	Standard Setter
CL – 6	Japanese Institute of Certified Practising Accountants	Japan	Professional Body
CL – 7	Council on Corporate Disclosure and Governance	Singapore	Business Body
CL – 8	Chartered institute of Management Accountants	Global based in UK	Professional Body
CL – 9	Grant Thornton International	Global based in USA	Auditors
CL – 10	Joint letter from Belgacom. Debitel, Deutsche Telekom, Telefonica and Vodaphone	Europe	Telecommunications – Award Providers
CL – 11	Lane, Clarke & Peacock	UK	Actuaries
CL – 12	South African institute of Chartered Accountants (also secretariat for Accounting Practices Board)	South Africa	Professional Body/ Standard Setter
CL – 13	Swiss GAAP FER	Switzerland	Standard Setter
CL – 14	ACTEO, AFEP, MEDEF	France	Business
CL – 15	AcSB	Canada	Standard Setter
CL – 16	CPA Australia (in consultation with APRAG)	Australia & Regional Perspective	Professional Body

CL – 17	FirstRand	South Africa	Financial Institution – operate CLP for customers of bank
CL – 18	IFRIC Review Committee of Korean Accounting Standards Board	Korea	Standard Setter
CL- 19	Belgian Accounting Standards Board	Belgian	Standard Setter
CL – 20	Finnair	Finland	Airline
CL – 21	Institute of Chartered Accountants	Ireland	Professional Body
CL – 22	South African Airways	South Africa	Airline
CL – 23	European Association of Cooperative Banks	Europe	Banking
CL – 24	Florida Institute of CPA	USA	Professional Body
CL – 25	Svenskt Naringsliv (forum for Chief Accountants from largest Swedish listed companies)	Sweden	Listed Companies
CL – 26	UNICE	Europe	Business
CL – 27	FAR SRS	Sweden	Professional body
CL – 28	Syngenta	Switzerland	Agribusiness
CL – 29	Institut Der Wirtschaftsorurer	Germany	Professional Body
CL – 30	Institute of Chartered Accountants in England and Wales ICAEW	UK	Professional Body
CL – 31	Deloitte	UK	Accounting Firm
CL – 32	UBS	Switzerland	Financial Products
CL – 33	PricewaterhouseCoopers	UK	Accounting Firm
CL – 34	The 100 Group of Finance Directors	UK	Top FTSE 100 Companies
CL – 35	British Airways	UK	Airline
CL – 36	Conseil National De La Compatabilite	France	National Standard Setter
C37	HSBC	UK	Financial Institution
C38	Ernst and Young	UK	International Accounting Firm
CL - 39	The Institute of Chartered Accountants	Australia	Professional Body
CL – 40	Nestle	Switzerland	Food
CL – 41	Redovisingsradet	Sweden	Emerging Issues Task Force
CL – 42	Mazars	France	International Accounting and Audit Group
CL – 43	Rechnungslegungs Interpretations	Germany	Accounting Interpretations Committee
CL – 44	Swiss Holdings	Switzerland	40 Swiss groups including most of country's industrial and commercial firms
CL – 45	None		
CL – 46	Foreningen af Statsautoriserede Revisorer	Denmark	Danish Accounting Standards Committee
CL – 47	Accounting Standards Board of Japan	Japan	National Accounting Standards Board
CL – 48	None		
CL – 49	Group of 100	Australia	Chief Financial Officers of Australia's largest businesses
CL – 50	Australian Accounting Standards Board	Australia	National Standard Setter

CL – 51	KPMG	UK	Accounting Firm
CL – 52	The Association of Chartered Certified Accountants ACCA	UK	Professional Body
CL – 53	None		
CL – 54	FEE Federation des Experts Compatables Europeans (European Federation of Accountants)		Association of Professional Bodies
CL – 55	European Financial Reporting Advisory Group EFRAG	EU	Technical Support to European Commission
CL – 56	IOSCO The International Organization of Securities and Exchange Commissions		Representative Body of regulators
CL – 57	Hong Kong Institute of Certified Public Accountants	Hong Kong	Professional Body and National Standard Setter
CL – 58	National Accounting Standards Board of Russia	Russia	National Standard Setter
CL – 59	Securities and Exchange Commission Thailand	Thailand	Regulator

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Table 1: **Categorisation of Submissions**

Category	No. of comments
Standard Setters	15
Professional Accounting Bodies	13
Regulatory Bodies - Other	2
Accounting Firms	7
Banks	5
Airlines	3
Other Business	9
Other	2
TOTAL	**56**

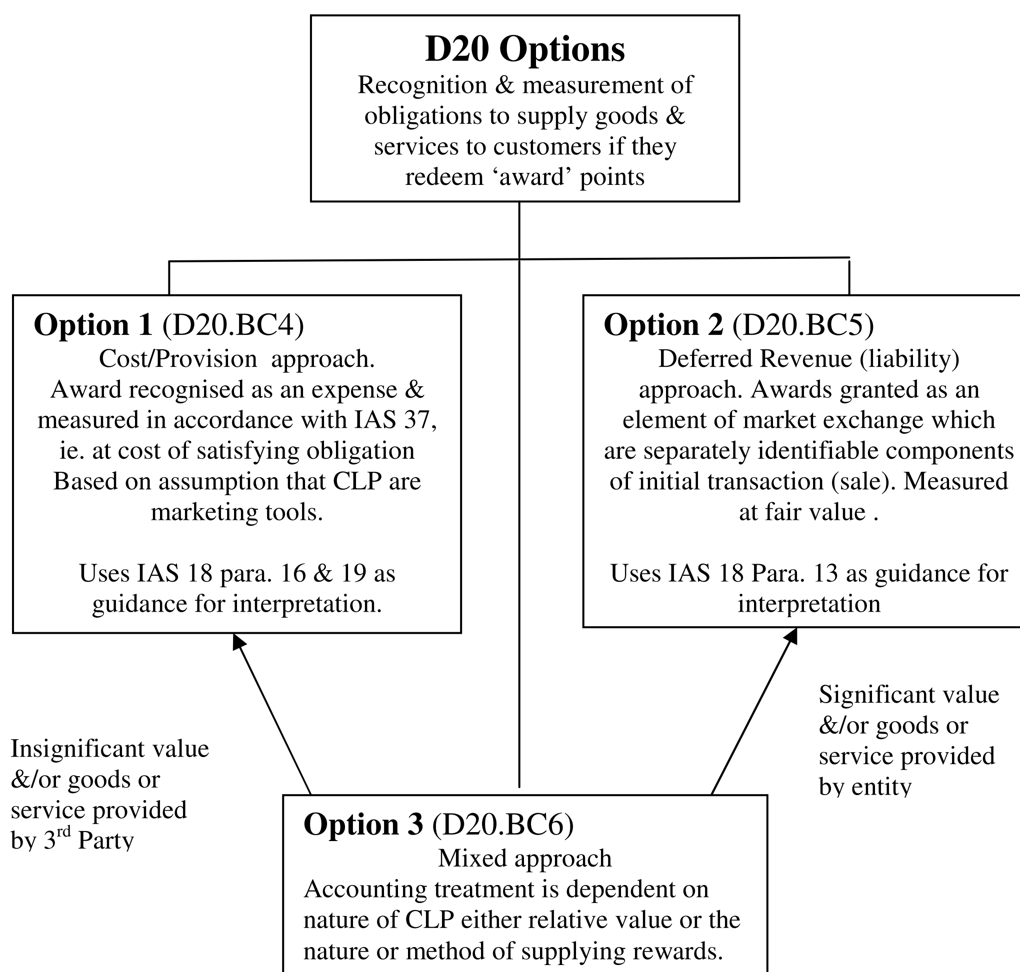
Table 2: Analysis of Comment Letters: Preferred Options

Option Considered	Standard Setters	Professional Accounting Bodies	Regulatory Bodies	Accounting Firms	Other Business	Banks	Airlines	Total
Option 1 *Cost/Provision*	6	3	0	0	1	4	3	**17**
Option 2 *Deferred Revenue*	5	5	0	4	2	1	0	**17**
Option 3 *Mixed Approach*	5	4	2	3	5	1	0	**20**
- Ordinary / non-ordinary activities	2		1	2	4	1	0	**10**
-significant / non-significant value of awards	1	1	1	0	0	0	0	**3**
- nature of program	1	2	0	0	1	0	0	**4**

Table 3: Analysis of Comment Letters: Additional Identified Issues

Additional Identified Issues	Standard Setters	Professional Accounting Bodies	Regulatory Bodies	Accounting Firms	Other Business	Banks	Airlines	Total
Scope	3	4	0	4	5	1	1	**18**
Assumptions of fair value estimates	7	8	1	6	3		3	**26**
Costs v Benefits	5	3	0	0	1	2	2	**13**
Customer relationships and Intangible assets	4	2	1	2	0	0	1	**10**
Treatment for third party transactions	4	3	0	2	2	1	1	**13**

Figure 1:



Consensus View
Option 2

Comment Letters &
Meeting Summaries

IFRIC 13 ***Customer Loyalty Programmes***

D20 Approach retained with the following amendments:

- *Allocation of consideration to award credits with reference to fair value*
- *Awards supplied by 3rd Party*
- *Customer relationship intangible assets removed*
- *Guidance to measure Fair Value of award credits*
- *Illustrative examples*

Figure 2: