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Organización Internacional de Comisiones de Valores
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Organização Internacional das Comissões de Valore

November 29, 2006

Mr. Robert Garnett
Chairman of IFRIC
D20 Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Bob:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC1) thanks you for the opportunity to provide our comments with regard to IFRIC Draft Interpretation D20 *Customer Loyalty Programmes*. IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of SC1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of SC1 and are not intended to include all of the comments that might be provided by individual members on behalf of their respective jurisdictions.

We support the IFRIC in its efforts to provide guidance on and to reduce the diversity related to the accounting for customer loyalty programmes and we appreciate the difficulty of determining the appropriate accounting for such programmes. This difficulty has been evidenced to us by the strong differences in views held by members of SC1. While certain members support the consensus reached in the Draft Interpretation, other members believe that customer loyalty programmes represent marketing expenses. Still other members believe that the accounting should depend on the nature of the programme given the variety in the types of programmes offered. Accordingly, we believe it is important that the Basis for Conclusions provide as much explanation as possible for why any consensus reached results in superior financial reporting as compared to the alternative views. If the Draft Interpretation is adopted more or less as proposed, we would suggest that the Basis for Conclusions therefore provide a discussion of why customer loyalty programmes are not marketing expenses and would suggest that specific examples of such programmes might be helpful in providing that analysis.

The remainder of this letter provides other specific comments and concerns that members of SC1 have regarding the Draft Interpretation. Our comments and concerns relate primarily to the allocation method and the methodology by which revenue is recognized, and are applicable only if a final

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consensus is reached that award credits provided under customer loyalty programmes represent a separately identifiable component of a sales transaction.

Allocation Method

We believe there is conceptual merit to allocating the consideration received by reference to the relative fair values of the components as this is consistent with the measurement objective of IAS 18 *Revenue*. However, we believe that other methodologies may also be consistent with IAS 18 as IAS 18 does not clearly address allocation between components and it is not clear that certain examples provided in the Appendix that accompanies IAS 18 always result in an allocation that is based on relative fair values. For example, we question whether under the proposed consensus a residual approach or a methodology that initially assumes that all award credits will be redeemed might also be acceptable allocation alternatives.

We also believe that the IFRIC should consider situations in which fair value may not be reasonably estimated. For example, an entity may not be able to reasonably estimate forfeitures or the frequency with which awards are expected to be selected when a range of different awards is provided if the entity institutes a new customer loyalty programme and is unable to look to other similar programmes in determining an appropriate estimate. In those cases, the IFRIC may consider allowing for other measurement techniques, such as assuming that all award credits will be redeemed or assuming that the most expensive award will be selected.

Recognition Method

We agree that revenue related to award credits should be recognized in the periods, and reflecting the pattern, in which award credits are redeemed. However, it is not clear how changes in expectations about the proportion of credits that will be redeemed or changes in the values of the awards expected to be redeemed are treated. While paragraph BC12 appears to prohibit changing the consideration allocated to the award credits, it is not clear how changes in expectations impact the rate of revenue recognized. We believe that clear principles, whether by reference to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* or through other guidance, should be provided.

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions concerning our comments, please do not hesitate to contact me at (202) 551-5300.

Sincerely,

Scott A. Taub

Scott A. Taub
Chairman
IOSCO Standing Committee No. 1