Highlights
The International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) (collectively, the Boards) discussed requests for additional guidance on credit card reward transactions at their May 2013 meeting. The Boards decided against specifically addressing the reward programmes in the final standard on revenue recognition.

The IASB also considered the transition requirements for first-time adopters of IFRS that adopt the new revenue standard on transition to IFRS, electing to provide optional relief.

Both Boards will continue to address issues that arise during the drafting of the final standard, which will specify the accounting for all revenue arising from contracts with customers, except for contracts such as leases that are in the scope of other standards. The Boards plan to issue the new standard in the third quarter of 2013.

Tentative decisions
Credit card reward programmes
Respondents to the November 2011 exposure draft in the financial services industry had questioned how the proposed standard would apply to credit card reward programmes. Under the programmes, cardholders earn points or other rewards from a credit card company when they use their cards to make purchases from merchants. The credit card company often separately requires the merchant to pay a fee when the card is used.

Certain respondents involved in credit card reward programmes questioned whether the Boards intended a reward programme to be accounted for as a separate performance obligation, rather than as a cost of the contract with the merchant.

The Boards confirmed that the specific facts and circumstances will need to be considered when accounting for credit card reward programmes, given the unique and varied nature of these agreements. The Boards decided against providing further clarification regarding how a credit card company would identify a customer (i.e., the merchant or the cardholder) in arrangements that involve reward programmes.

Instead, the Boards decided to update the loyalty programme illustration in the final standard to clarify that entities may not always conclude that award credits are performance obligations.
How we see it

Significant judgement will be required to identify the customer (and any related performance obligations) in an arrangement involving multiple parties, including a credit card company, a cardholder and a merchant. Some of the factors that may be relevant include whether the credit card company:

- Has an agreement with both the merchant and the cardholder
- Charges the cardholder a fee for participation in the reward programme
- Actively manages the reward programme

Transition requirements for first-time adopters of IFRS

The Boards previously agreed to transition requirements for existing IFRS and US GAAP preparers. Entities will be allowed to apply the new standard either retrospectively or on a modified retrospective basis.

At the meeting, the IASB considered the transition requirements for first-time adopters of IFRS that adopt the new revenue standard on transition to IFRS. The IASB tentatively agreed not to permit the modified retrospective approach for first-time adopters of IFRS. Instead, first-time adopters of IFRS will be given an optional exemption to ignore, in their application of IFRS 1, contracts that are completed under legacy revenue requirements before the earliest comparative period.

In addition, the Boards intend to remind first-time adopters that, while contracts may be considered complete for revenue recognition purposes under legacy revenue requirements, on transition to IFRS, provision would need to be made in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets for any onerous contracts.

How we see it

The decision to provide first-time adopters of IFRS with an optional transition exemption for completed contracts will alleviate the transition burden. While under the completed contracts exemption, first-time adopters will still need to restate all comparative periods presented and provide disclosures in accordance with IFRS 1, the modified retrospective approach would have required two separate reconciliations.

IAS 8 disclosures

When an entity retrospectively applies a new standard under IFRS, it is required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose the effect of that change on the current period and any prior periods presented for each financial statement line item affected, to the extent practicable. The IASB considered whether to provide entities with an exemption from this requirement on adoption of the new revenue standard.

The IASB tentatively agreed that entities should not be required to provide the amount of adjustments in the current period, when entities apply the new revenue standard retrospectively.

What’s next

The Boards will continue to address any remaining sweep issues. The Boards plan to issue the new standard in the third quarter of 2013.