

Promotional gifts and prizes

Presentation for IASB Islamic Finance Consultative Group (IFCG)

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Agenda: discussion points

- Overview
- Why IFIs offer promotional gifts and prizes
- Challenges faced by IFIs in terms of accounting
- Accounting treatment
- Way forward: possible solutions



Overview

What are promotional gifts and prizes



Promotional gifts and prizes include both that relate to retail products like credit cards, as well as, those that relate to investment accounts (does not include gift/Hiba given for profit smoothing).



A prize is used to promote specific products or services or to attract investors by way of holding a draw or by achieving a defined target, or a combination of which is awarded at a given point of time in future.



A gift is used to promote specific products or services or to attract investors that is awarded by an institution from time to time to certain customers.

Loyalty program – is usually in the form of points accumulated by the customers against the purchase or continued utilisation of products or services, or for maintaining investment accounts, enabling the customers to exchange accumulated points for cash, goods or services on a complementary basis or at discounted rates at a future date.



Overview (contd.)

Promotional activities



Gifts



- Leather wallet, keychain set, power bank, pen, USB, mugs, etc.

Prizes



- Such as grand cash prize, luxury car or a cruise trip. on using bank products for deposits, remittance, etc.

Loyalty programs



- Spend and win on use of debit / credit card.
- Waiver of fee on spending certain amount.

Why Islamic financial institutions (IFIs) offer promotional gifts and prizes

Promotional gifts and prizes need in an IFI



- Due to low benchmark rates, a lot of conventional and Islamic financial institutions (IFIs) have started offering promotional gifts and prizes (including loyalty programs) to investment accounts.
- To promote the IFI's asset side products such as credit cards.
- Build customer base in a highly competitive market.
- As a product differentiation in a market offering similar services.

Challenges faced by Islamic Financial Institutions (IFIs)

The issues being faced
by IFIs



- The timing of recognition of the cost including deferment, if possible.
- Its classification as profit on investment accounts (conventionally cost of fund) or marketing expense, etc. have multiple challenges in accounting.

Accounting Treatment

Advertising and promotional activities



Gifts

- Entity to recognise expenditure on goods acquired for promotional activity as an expense when it owns the goods, or
- Otherwise has a right to access them regardless of when it distributes the goods. [paragraph 69 IAS 38]

Prizes

- Expenditure on advertising and promotional activities is recognised as an expense when it is incurred.

Way forward : possible solutions

Timing of recognition



Gifts

- To record an expense as and when incurred.

Prizes

- To record a provision against the obligation arising:
- where there is existing constructive obligation to award promotional prize
- can reliably measure the obligation (including fair value of in-kind prizes).
- amount against provision will be usually charged as an expense.

Loyalty programs

- To record a provision against obligation for loyalty programs based on the points accumulated to the customers, considering:
- probability of expected utilisation by customers.
- Timing of utilisation of loyalty programs by customers.
- amount against provision will be charged as an expense.

Way forward : possible solutions (contd.)

Deferment of expense



Gifts and loyalty programs

- Expense is not deferred.

Promotional prizes spanning over at least 12 months

- Recognition of a corresponding asset to the extent awarding of the prize is not vested, to be amortised over a period of time if:
- promotional prize is awarded at end of marketing and promotion campaign spanning over a period of 12 months;
- amount is material; and
- there is correlation in increase of business revenue.

Way forward : possible solutions (contd.)

Charging of expense and disclosure



Charging of expense

- Promotional and marketing expenses generally charge to the owners' equity of the institution
- However, if relates to asset side or service side products funded by an investment pool than to be expense of the same.

Disclosure

- Accounting policies relating to promotional gifts, prizes and loyalty programs;
- Provision and movement of provision, as well as, corresponding expenses in respect of promotional gifts, prizes and loyalty programs, and non-vested provisions not yet expensed out.

Thank you!