IFRS Accounting

Staff paper

Agenda reference: 4

IFRS® Interpretations Committee meeting

Date	**September 2023**
Project	**Homes and Home Loans Provided to Employees**
Topic	**Comment letters on tentative agenda decision**
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Introduction

1. At its March 2023 meeting, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission about how an entity accounts for:

   (a) homes it provides to its employees; and

   (b) loans it provides to its employees to enable them to buy homes.

2. This paper:

   (a) provides a summary of the submission;

   (b) analyses comments on the tentative agenda decision; and

   (c) asks the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure

3. This paper includes:

   (a) Background information;

(b) Summary of the comment letters and staff analysis;

(c) Staff recommendation and questions for the Committee.

4. The appendix to this paper sets out suggested wording for the tentative agenda decision.

Background information

Summary of the submission

5. The submission described two fact patterns and alternative views identified by the submitter.[1]

Fact pattern 1: employee home ownership plans

6. An entity provides its employee with a house that the entity constructed and owns. In return, the employee:

(a) forgoes a contractual housing allowance, which the entity would have otherwise paid in cash every month; and

(b) has a proportion of his or her base salary deducted every month until the agreed price of the house has been fully repaid. The employee is not required to pay interest on the amounts outstanding.

7. The agreed price of the house is often favourable to the employee.

8. If the employee leaves employment *within* the first five years after receiving the house, the employee forfeits the house and recovers the salary deductions to date. If the employee leaves employment *after* that five-year period, the employee may choose either:

[1] The submission is reproduced in Appendix B to Agenda Paper 5 for the March 2023 Committee meeting.

(a) to forfeit the house and recover the salary deductions to date; or

(b) to keep the house and immediately repay the outstanding balance.

9. Legal title transfers to the employee only when he or she has paid in full the agreed price for the house, either through salary deductions or by paying the outstanding balance on leaving employment.

10. The submission asked how the entity should account for this arrangement, in particular:

(a) when it should recognise transfer of the house to the employee—as soon as the employee starts to occupy the house, or only five years later when the employee becomes unconditionally entitled to keep the house; and

(b) how the entity should recognise payments received and receivable from the employee before and after it recognises transfer of the house.

Fact pattern 2: employee home loans

11. An entity provides its employee with a loan to buy a house. The entity provides the loan at a below-market rate of interest, typically interest-free. The employee chooses and purchases the house—the entity never owns it.

12. The employee repays the loan through salary deductions. If the employee leaves employment for any reason at any point, the outstanding balance of the loan becomes repayable.

13. The submission asked whether the accounting for this arrangement would differ from that in fact pattern 1.

The Committee's findings and conclusion

14. Upon receiving the submission, the Committee sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. The information request asked:

(a) whether the fact patterns described in the submission are common; and, if so

(i) whether the amounts involved are often material for entities; and

(ii) in which jurisdictions such fact patterns are common; and

(b) how entities account for plans and loans like those described in the submission.

15. The responses to the information request indicated that neither of the fact patterns described in the submission is widespread, and that even when the fact patterns do arise, the amounts involved are not material.

16. Therefore, the Committee concluded that the matters do not meet the criteria for adding a standard-setting project to the work plan set out in paragraph 5.16 of the *Due Process Handbook*. In particular, the matters do not meet the criterion in sub-paragraph 5.16(a) that 'the matter has widespread effect and has, or is expected to have, a material effect on those affected' (the 'widespread and material' criterion).

17. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan. It instead published a tentative agenda decision explaining its reasons for not adding a standard-setting project.

Summary of the comment letters and staff analysis

18. In this section, we analyse the seven comment letters received by the comment letter deadline. These comment letters are reproduced in Agenda Paper 4A. All comment letters, including any received late, are available on our website.[2]

[2] At the date of posting this paper, there were no late comment letters.

Support for the Committee's conclusion

Respondents' comments

19. Five of the seven respondents agree with the Committee's conclusion and tentative decision not to add a standard-project to the work plan. These respondents comprise both the accounting firms, two of the national standard-setters and an individual commenting.

20. Two respondents disagree with the Committee's conclusion that the matters described in the submission do not have widespread effect and they do not have (and nor are they expected to have) a material effect on those affected:

    (a) the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) said that employee home loans similar to those described in the submission are prevalent in India—companies, banks and public sector entities provide home loans to employees at below-market rates of interest. The ICAI also said that although employee home ownership plans are not prevalent in India, similar arrangements involving other types of assets (such as vehicles) are common.

    (b) the Saudi Organization for Chartered and Professional Accountants (SOCPA) said—based on an analysis of ten large listed entities in the Kingdom of Saudi Arabia—it is common for entities to provide homes and home loans to employees, and that the amounts involved are material. SOCPA said it has seen diversity in how entities account for such arrangements.

Staff analysis

21. In our view, feedback on the tentative agenda decision supports the Committee's tentative conclusion that the matters described in the request do not have widespread effect and they do not have (and nor are they expected to have) a material effect on those affected. One respondent—SOCPA—expresses an opinion that the matters *both* have widespread effect in its jurisdiction (the Kingdom of Saudia Arabia) *and* have a

material effect on those affected. However, no other stakeholders have expressed a view that the matters have a widespread effect and a material effect on those affected in their jurisdictions.

Suggestions to add explanatory material

Respondents' suggestions

22. In the light of their disagreement with the Committee's conclusion (see paragraph 20 of this paper), ICAI and SOCPA suggest the Committee includes with the agenda decision guidance clarifying how an entity should account for the arrangements described in the submission.

23. Also, while agreeing with the Committee's conclusion, Kinsey Fields suggests that a guidance would nevertheless be helpful because employee home ownership plans and loans 'can have significant financial implications for both the entity and its employees'.

Staff analysis

24. Regarding whether an agenda decision includes guidance explaining the required accounting, paragraph 8.3 of the *Due Process Handbook* states:

> … An agenda decision typically includes explanatory material when the reason for not adding a standard-setting project to the work plan is the Interpretations Committee's conclusion that the principles and requirements in the Standards provide an adequate basis for an entity to determine the required accounting. …

25. In this case, the Committee's reason for not adding a standard-setting project to the work plan is a different one—it is that the matters do not meet the 'widespread and material' criterion.

26. The Committee encountered a similar situation when it published Agenda Decision *Non-refundable Value Added Tax on Lease Payments (IFRS 16 Leases)* in October 2021. On that matter, the Committee similarly concluded that the matter did not meet the 'widespread and material' criterion.

27. At its September 2021 meeting, the Committee agreed with the staff recommendation not to provide explanatory material in that agenda decision. The staff's recommendation reflected the staff's view that:

> … the Committee's role is not to undertake technical analysis and provide explanatory material in agenda decisions when the Committee has obtained insufficient evidence that the matter has widespread effect and has, or is expected to have, a material effect on those affected. We think doing so could risk setting a precedent that the Committee will provide technical analysis on all matters submitted to it, even when the evidence obtained indicates that the matter is not widespread (including when evidence suggests there is little diversity in the accounting treatment entities apply).

28. The Committee's decision set a precedent, and basis, for not including explanatory material in an agenda decision when the 'widespread and material' criterion set out in paragraph 5.16(a) of the *Due Process Handbook* is not met. We see no reason for an exception to this precedent in this case.

Drafting suggestions

Respondent's suggestions

29. The tentative agenda decision summarised the submission's alternative views on the accounting for fact pattern 2 (that is, employee home loans) as follows:

> The request asked how the entity should account for this arrangement—in particular, whether the loan is:

(a) a prepaid employee benefit within the scope of IAS 19 *Employee Benefits*; or

(b) a financial asset within the scope of IFRS 9 *Financial Instruments*, with the below-market element loan accounted for as prepaid employee benefit by applying IAS 19.

30. Mazars disagrees with view (a) and explained its reasons in its comment letter. It expresses concern that, by presenting view (a) and view (b) without any explanatory material, the agenda decision might imply that both views are acceptable. It suggests the Committee clarify in the agenda decision that view (a) is not acceptable.

Staff analysis

31. In our view, the Committee should not clarify in the agenda decision whether view (a) and/or view (b) is/are acceptable. The Committee has performed no technical analysis on the matters, and such a clarification would amount to an explanatory material. For the reasons set out in paragraphs 24–28 of this paper, we recommend the Committee not include any explanatory material in the agenda decision.

32. Nonetheless, we agree with Mazars' concern that the agenda decision might risk implying that both views are acceptable, particularly in the absence of an explanatory material. Therefore, we suggest omitting the alternative views from the agenda decision—as marked in our suggested wording for the agenda decision (see appendix to this paper).

Other comments

Comments

33. Two respondents—Kinsey Fields and SOCPA—shared their views on how entities should account for the arrangements described in the submission.

Staff analysis

34. As we explain in paragraphs 24–28 of this paper, we recommend the Committee not include any explanatory material in the agenda decision. Therefore, we did not analyse these views further.

Staff recommendation and questions for the Committee

35. Based on our analysis in paragraphs 18–34 of this paper, we recommend finalising the agenda decision, with changes to the wording of the tentative agenda decision as marked in the appendix to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee
1. Does the Committee agree with the staff recommendation set out in in paragraph 35 of this paper? 2. Do Committee members have any comments on the wording of the agenda decision in the appendix to this paper?

Appendix—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (deleted text is struck through).

Homes and Home Loans Provided to Employees

The Committee received a request about how an entity accounts for employee home ownership plans and employee home loans.

Fact pattern 1: employee home ownership plans

An entity provides its employee with a house that the entity constructed and owns. In return, the employee has a proportion of his or her base salary deducted every month until the agreed price of the house has been fully repaid.

If the employee leaves employment *within* the first five years of the arrangement, the employee forfeits his or her rights to the house and recovers the salary deductions to date. If the employee leaves employment *after* that five-year period, the employee may choose either:

(a) to forfeit his or her rights to the house and recover the salary deductions to date; or

(b) to keep the house and immediately repay the outstanding balance.

Legal title to the house transfers to the employee only when he or she has paid in full the agreed price for the house.

The request asked how the entity should account for this arrangement—in particular, when it should recognise the transfer of the house to the employee, and the accounting before and after the transfer.

Fact pattern 2: employee home loans

An entity provides its employee with a loan to buy a house, which the employee chooses and purchases and the entity does not own. The entity provides the loan at a below-market rate of interest; the loan is typically interest-free. The employee repays the loan through salary deductions. If the employee leaves employment for any reason at any point, the outstanding balance of the loan becomes repayable.

The request asked how the entity should account for this arrangement~~—in particular, whether the loan is:~~

~~(a) a prepaid employee benefit within the scope of IAS 19 *Employee Benefits*; or~~

(b) ~~a financial asset within the scope of IFRS 9 *Financial Instruments*, with the below-market element loan accounted for as prepaid employee benefit by applying IAS 19~~.

Findings

Evidence gathered by the Committee ~~[to date]~~ indicated that the matters described in the request are not widespread, and that when the matters do arise, the amounts involved are not material.

Conclusion

Based on its findings, the Committee concluded that the matters described in the request do not have widespread effect and they do not have (and nor are they expected to have) a material effect on those affected. Consequently, the Committee ~~[~~decided~~]~~ not to add a standard-setting project to the work plan.