IFRS Accounting

Staff paper

Agenda reference: 4A

IFRS® Interpretations Committee meeting

Date	**September 2023**
Project	**Homes and Home Loans Provided to Employees**
Topic	**Comment letters**
Contacts	Stefano Tampubolon (stampubolon@ifrs.org) Joan Brown (jbrown@ifrs.org)

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Homes and Home Loans Provided to Employees' published in March 2023.

Dear IFRS Interpretations Committee,

I am writing to provide my comments on the request received by the Committee regarding the accounting treatment for employee home ownership plans and employee home loans.
The Committee's findings indicate that the matters described in the request are not widespread, and the amounts involved are not material. Based on these findings, the Committee decided not to add a standard-setting project to the work plan as it does not have a significant impact on those affected.

While I agree with the Committee's conclusion, I believe that additional guidance on this matter would be beneficial. It is important to clarify the accounting treatment for employee home ownership plans and employee home loans because these arrangements can have significant financial implications for both the entity and its employees. Clarity on the appropriate accounting treatment can help ensure that financial reporting is consistent and accurate, which can enhance the quality of financial information and informed decision-making by stakeholders.

In addition, providing guidance on the accounting treatment can help prevent potential misinterpretations or misunderstandings of the accounting standards, which can result in inconsistent or incorrect financial reporting. This can also help entities avoid potential legal or regulatory issues related to financial reporting.

Fact pattern 1: Employee Home Ownership Plans

In my opinion, the transfer of legal title to the house should be recognized by the entity only when the employee has paid in full the agreed price for the house. Until then, the entity should recognize the arrangement as a financing transaction and account for the deductions from the employee's salary as loan repayments. Since there is an agreement that the employee will be able to have the loan if they stay at the company, it makes sense that they do not have ownership of the home yet.

Accounting Treatment:

The accounting treatment of an employee home ownership plan will depend on whether the entity transfers control of the house to the employee or not. If the entity transfers control of the house to the employee, then the entity should recognize the transfer when it occurs, and the employee should recognize the asset and liability at the transfer date. However, if the entity retains control of the house until the employee has fully repaid the agreed price, then the entity should account the contract as an operating lease, and the employee should not recognize the asset or liability until legal title transfers to them.

The accounting before the transfer date should follow the principles in IAS 18 Revenue since the entity is accounting for revenue from the use of an employee of the entity’s asset, house, yielding interest. The entity should recognize revenue based on the proportion of the agreed price that the employee has repaid to the entity. The entity should recognize the salary deductions as revenue and recognize a liability for the employee's rights to the house.

After the transfer date, the employee should recognize the house as an asset and the outstanding balance of the salary deductions as a liability. The employee should account the loan from the entity as a liability.

The accounting treatment before and after the transfer should follow the guidance in IFRS 9 for financial instruments, depending on the nature of the transaction.

Fact pattern 2: Employee Home Loans

Regarding employee home loans, I believe that the loan should be accounted for as a financial asset within the scope of IFRS 9. The below-market element of the loan should be accounted for as a prepaid employee benefit by applying IAS 19 Employee Benefits. This approach will ensure that the entity accounts for the loan in a manner consistent with the relevant accounting standards.

Accounting treatment:

Employee home loans are loans provided by an entity to an employee to purchase a house. The loan is typically offered at a below-market rate of interest or is interest-free, and the employee repays the loan through salary deductions. If the employee leaves employment at any point, the outstanding balance of the loan becomes repayable.

The accounting treatment of employee home loans depends on whether the loan is a prepaid employee benefit within the scope of IAS 19 Employee Benefits or a financial asset within the scope of IFRS 9 Financial Instruments.

If the loan is a prepaid employee benefit, the entity should account for the below-market element of the loan as a prepaid employee benefit by applying IAS 19. In accordance with IAS 19, the entity should recognize the expense of the prepaid benefit over the period that the employee is providing services. The entity should recognize the salary deductions as revenue and recognize a liability for the outstanding balance of the loan.

If the loan is a financial asset, the entity should account for it in accordance with IFRS 9. The entity should initially recognize the loan at fair value, and subsequently at amortized cost using the effective interest method. The entity should recognize the interest income on the loan in profit or loss over the life of the loan and recognize any impairment losses in accordance with IFRS 9.

In determining whether the loan is a prepaid employee benefit or a financial asset, the entity should consider the substance of the arrangement. If the loan is provided as part of an employee benefit package and the employee is required to repay the loan through salary deductions, then it is likely to be a prepaid employee benefit. If the loan is provided at market interest rates and is not part of an employee benefit package, then it is likely to be a financial asset.

If the entity provides the loan at below-market interest rates, then it is necessary to determine the fair value of the loan. The fair value of the loan is the present value of the expected future cash flows, discounted at the market interest rate for a loan of a similar size. The difference between the fair value and face value of the loan should be recorded as a prepaid employee benefit if the fair value of the loan is less than the face value.

The accounting treatment of employee home loans depends on whether the loan is a prepaid employee benefit or a financial asset. The loan should be first recorded at fair value by the entity and then amortized over time using the effective interest method. Over the course of the loan, the firm should record interest income and any impairment losses in profit or loss in accordance with IFRS 9.

In conclusion, I recommend that the Committee provide guidance or an interpretation on the appropriate accounting treatment for employee home ownership plans and employee home loans to promote consistency in financial reporting and avoid potential misinterpretations of the accounting standards.

Thank you for considering my comments on this matter.

Sincerely,

Kinsey Fields

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17 May 2023

Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London, United Kingdom
E14 4HD

Dear Mr Mackenzie

Tentative agenda decision – Homes and Home Loans Provided to Employees

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2023 IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request about how an entity accounts for employee home ownership plans and employee home loans.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our response, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS and Corporate Reporting Leader

18 May 2023

IFRS Interpretations Committee
7 Westferry Circus,
Canary Wharf
London E14 4HD
United Kingdom

RE: IFRS IC Tentative Agenda Decision - Homes and Home Loans Provided to Employees

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision – Homes and Home Loans Provided to Employees*.

SOCPA disagrees with the conclusion of the Committee which is merely based on the responses received from the information request, that the matters described in the request are not widespread as SOCPA is aware that the practice exists in many jurisdictions including the Kingdom of Saudi Arabia. The Kingdom of Saudi Arabia has the largest stock exchange by market capitalization in the region and an analysis of 10 large listed entities in the Kingdom of Saudi Arabia indicated that it is a very common practice for employers to provide homes and home loans to employees and the amounts involved are material. Based on the analysis it was further observed that there was diversity in the method of accounting used by these entities when accounting for these transactions.

Although SOCPA believes that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for homes and home loans provided to employees, a clarification by the IFRS IC is desired to clarify the accounting for such transactions. Our conclusion is further explained below:

Fact pattern 1: employee home ownership plans

When to recognize the transfer of the house to the employee:

SOCPA believes IFRS 15 provides the required guidance. Paragraph 31 states:

"An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset".

Paragraph 33 states "…. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset…"

In addition, the arrangement fulfills several indicators of the transfer of control listed in paragraph 38,

- a customer is presently obliged to pay for an asset,
- the entity has transferred physical possession of the asset—the customer's physical possession of an asset,
- the customer has the significant risks and rewards of ownership of the asset,
- the customer has accepted the asset.

When the guidance referred to above is applied to the fact pattern 1 it could be regarded that the employee controls the house from day 1, even though there is a possibility that the employee could leave the entity during the first 5 years and will be required to forfeit the house. The possibility of a forfeiture as given in the fact pattern is similar to a "sale with a right of return" as detailed in paragraph B20 of IFRS 15 and would not have any bearing on recognition of the sale on day 1.

Accounting before and after the transfer:

As the sale of the house is recognised on day 1, there would not be any change to this after the transfer as the customer has control of the asset (house).

As with the initial 5 years, if an employee does leave the entity after 5 years and decides to forfeit the house, as stated above, this would be similar to a sale with a right to return and will be accounted for accordingly.

Fact pattern 2: employee home loans

Accounting as a prepaid employee benefit within the scope of IAS 19 Employee Benefits or a financial asset within the scope of IFRS 9 financial instruments, with the below-market element of the loan accounted for as a prepaid employee benefit by applying IAS 19:

Day 1 and during period of employment:

Although the entity provides a below market or interest-free loan to employees, it cannot be considered a financial asset at the time the loan is granted as it does not meet the definition of a financial asset as per paragraph 11 of IAS 32.

In order for this amount to be recognized as a financial asset, the receivable should be a contractual right to receive cash or another financial asset from another entity; or should be able to exchange the financial asset with another entity under conditions that are potentially favourable to the entity. However, in the fact pattern the entity's intention is to recover the loan through salary deductions during the period of employment. Therefore, it does not meet the definition of a financial asset.

The loan granted to the employee is therefore effectively an employment benefit that is prepaid. This prepaid amount is recognized as an expense during the period of service. The expense for each period would depend on the arrangement the entity has with the employee regarding the recovery of the loan.

If employee leaves employment:

If at a subsequent date the employee decides to leave employment, the fact pattern states that the outstanding balance of the loan becomes repayable. At this point, the entity would reclassify the balance prepaid employment benefit amount as a financial asset as it would now meet the definition of a financial asset in accordance with paragraph 11 of IAS 32.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Chief Executive Officer

22 May 2023

Mr. Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Mackenzie,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

(a) Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)

(b) Homes and Home Loans Provided to Employees

(c) Premiums Receivable from an Intermediary (IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*)

We agree with the IFRS Interpretations Committee's conclusion for not adding a standard-setting project to its work plan based on the specific fact patterns described in the Tentative Agenda Decisions.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Nomor : 1404/DSAK/IAI/V/203 Jakarta, 22 Mei 2023

IFRS Interpretations Committee
Columbus Building, 7 Westferry
Circus Canary Wharf, London

Comment on Tentative Agenda Decision (TAD): *Homes and Home Loans Provided to Employees*

Dear IFRS Interpretations Committee (Committees),

Dewan Standar Akuntansi Keuangan (DSAK) - The Indonesian Financial Accounting Standards Board, as part of Ikatan Akuntan Indonesia (IAI) - the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia. On behalf of DSAK IAI, I am writing to respond regarding on the TAD: *Homes and Home Loans Provided to Employees.*

Considering lack of prevalence of the matters discussed in the TAD, we support IFRIC conclusion not to add a standard-setting project to the work plan.

We hope that our responses could contribute to the Interpretation Committee's future deliberations. Should you have further concerns regarding our responses, please do not hesitate to contact us at dsak@iaiglobal.or.id.

Yours sincerely.

Indra Wijaya
Chairman
The Indonesian Financial Accounting Standards
Board Institute of Indonesia Chartered
Accountants

भारतीय सनदी लेखाकार संस्थान
(संसदीय अधिनियम द्वारा स्थापित)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

आज़ादी का अमृत महोत्सव

May 22, 2023

Mr. Bruce Mackenzie,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Bruce,

Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee on Homes and Home Loans Provided to Employees

We welcome the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee (IFRS IC).

We have noted the findings and conclusion by IFRS IC that matters described in the request are not widespread, and that when the matters do arise, the amounts involved are not material. Therefore, IFRS IC decided not to add a standard-setting project to the work plan.

In this regard, we are of the view that arrangements similar to fact pattern regarding *employee home loans* are prevalent in India since companies, banks, public sector entities, etc. provide loans to employees for purchasing homes at lower than market rate of interest. Further, although arrangement similar to *home ownership plans* are not much prevalent in India, however, such arrangements are common in respect of other assets, e.g., vehicles which have been purchased by the entities and given to the employees.

While we agree with the decision of IFRS IC to not to add the issue in the standards setting project, it would be appropriate if IFRS IC provides guidance on the accounting with regard to aforesaid arrangements. The guidance on *home ownership plans* would help the entities in applying such guidance to other arrangements, e.g., motor vehicle or any other kind of assets provided to the employees. Providing guidance will address the issue of diversity and achieve consistency in accounting of such arrangemnts.

Yours sincerely,

CA. Pramod Jain
Chairman,
Accounting Standards Board

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Mr Bruce Mackenzie
IFRS Interpretations Committee Chair
Columbus Building,
7 Westferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Paris, 22 May 2023

March 2023 IFRIC Tentative Agenda Decision – Homes and Home Loans Provided to Employees

Dear Bruce,

Mazars is pleased to comment on the above mentioned IFRS Interpretations Committee Tentative Agenda Decision, published in the March 2023 IFRIC Update.

We agree with the IFRS Interpretations Committee's decision not to add a standard-setting project onto its work plan for the reasons set out in the tentative agenda decision.

That being said, we have concerns regarding how the fact pattern 2 is presented in the Tentative agenda decision: by describing the accounting alternatives presented in the submission without providing any answer, the Interpretations Committee acknowledges both alternatives are possible outcomes.
We want to be sure that the Interpretations Committee actually considers an employee home loan can be accounted for in its entirety as a prepaid employee benefit in the scope of IAS 19 - *Employee Benefits*. We disagree with such outcome. We see the fact that the employee loan is repayable through salary deductions only as a means of settlement. We believe that the only advantage granted by the entity to its employee is providing him with a below-market rate of interest, and that only the off-market feature of the loan should be considered as an employee benefit.

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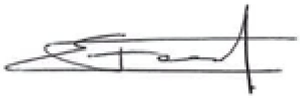
If the Interpretations Committee agrees with our conclusion, we suggest the final agenda decision makes it clear that the first alternative described in the submission is not valid.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,



Edouard Fossat

Financial Reporting Technical Support