

Newsletter 63 – December 2016

ACCOUNTING STANDARDS BOARD MEETING HELD ON 1 DECEMBER 2016

TECHNICAL ACTIVITIES

Overview

At its meeting on 1 December 2016, the Board considered the following documents that were recommended to the Board by the Technical Committee:

- Analysis of the comments received on the proposed Guideline on *Accounting for Arrangements Undertaken in terms of the National Housing Programme* (ED 140) and amendments thereto.
- Analysis of the comments received on the proposed Standard of GRAP on *Living and Non-living Resources* (ED 143) and amendments thereto.
- Proposed project briefs for projects on *Interim Financial Statements* and *Review of the Statement of Financial Performance*.
- Proposed amendments to the Prefaces to the Standards of GRAP, Interpretations to the Standards of GRAP and Directives.

The meeting highlights can be downloaded from the ASB's website.

Analysis of comments received on proposed Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme (ED 140)

Key decisions

- The Board DISCUSSED the comments received on ED 140 and AGREED that certain amendments should be made to the proposed Guideline to respond to comments made by stakeholders.
- The Board AGREED that the principles in GRAP 3 *Accounting Policies, Changes in Estimates and Errors* should be applied on the initial application of the Guideline.
- The Board APPROVED the Guideline for issue. The Guideline will be published in March 2017, and will be mandatory for entities for financial years commencing on the later of 1 April 2019, or the effective date of GRAP 109 *Accounting by Principals and Agents*.

Background and deliberations

The Board discussed the written and verbal comments received on ED 140. The analysis of the comments received and the Board's response thereto are available on the ASB's website.

Respondents generally expressed support for the proposed Guideline.

One of the key issues raised by respondents was the existence of a binding arrangement related to housing schemes. The Board confirmed that a binding arrangement must be used to identify an entity's rights and obligations arising from housing arrangements. This is because the Housing Code makes it clear that an implementation protocol, service level agreement, memorandum of understanding or equivalent needs to be in place between the municipality and the relevant department.

Other comments relate to specific areas where further guidance is needed. Based on the comments received, the Board agreed to make the following key amendments to the proposed Guideline:

- Guidance has been added to explain how and when changes in the terms and conditions of a binding arrangement are assessed and accounted for.
- Explanatory text has been added to indicate that, even though an arrangement may use the term “project manager” or “project developer”, an entity should still assess the roles and responsibilities it undertakes in the arrangement so as to ensure that the appropriate accounting principles are applied.
- Guidance has been added to explain the accounting treatment for costs incurred by the municipality which will not be reimbursed by the relevant Department of Human Settlements.
- Guidance has been added on various issues related to land, including (a) how to account for the portion of land that is either retained or should be derecognised when the arrangement is concluded, and (b) the treatment of land in relation to infrastructure developed as part of the arrangement.

Respondents also raised questions about whether transitional provisions would be developed to assist with the initial application of the proposed Guideline. As the proposed Guideline explains existing principles in the Standards of GRAP, it was agreed that specific transitional provisions are not needed. A new chapter has been added to the proposed Guideline indicating that GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors* should be applied.

Approval of the proposed Guideline and its application

The Board approved the Guideline for issue as a final pronouncement. The publication of the Guideline will however be delayed until the end of March 2017. This is to ensure that any amendments that may arise from the consultation on ED 151 on the proposed IGRAP on *Recognition and Derecognition of Land* are included in the final Guideline.

Guidelines are not mandatory unless they are included in the GRAP Reporting Framework as outlined in Directive 5 *Determining the GRAP Reporting Framework*. The Board agreed that the Guideline should be mandatory for entities for financial periods commencing on the later of 1 April 2019 or the effective date of GRAP 109 *Accounting by Principals and Agents* (which is still to be determined by the Minister of Finance).

Analysis of the comments received on the proposed Standard of GRAP on *Living and Non-living Resources* (ED 143)

Key decisions

- The Board DISCUSSED the comments received on ED 143 and AGREED that certain amendments should be made to the proposed Standard to respond to comments made by stakeholders.
- The Board APPROVED the proposed Standard of GRAP on *Living and Non-living Resources* for issue.
- The Board AGREED to consider proposed transitional provisions and effective date at its next meeting.

Background and deliberations

The Board discussed the written and verbal comments received on ED 143. The analysis of the comments received and the Board's response thereto are available on the ASB's website.

Respondents generally expressed support for the proposed Standard. Many of the concerns raised by respondents related to the measurement of living resources and the practical issues related to the developing of policies on the capitalisation and expensing of costs, depreciation, and the initial valuation of living resources where cost information is not available. As these issues relate to the practical application and implementation of the Standard, they will be communicated to the OAG for its consideration in developing guidance.

The key amendments made to the proposed Standard to respond to comments raised during the consultation process are outlined below:

- Additional explanatory guidance was added to the discussions on the indicators of control and their application.
- Guidance was added on the treatment of transfers to and from living resources and the other Standards of GRAP.
- Consequential amendments were added to (a) GRAP 12 *Inventories* to require the disclosure of information about the point at which non-living resources are extracted, and (b) Directive 11 *Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP* to include possible changes in accounting policy after the initial adoption of the Standard of GRAP on *Living and Non-living Resources*.
- The requirement to disclose information about the quantities of living and non-living resources that are not recognised was deleted. The Board was of the view that this information would not provide relevant information to users of the financial statements.
- Entities are now required rather than encouraged to disclose information on living resources borrowed from, or on loan to, other entities.

Approval of Standard and next steps

The Board approved the proposed Standard of GRAP on *Living and Non-living Resources* for issue as a final pronouncement.

The Board will consider proposed transitional provisions and an effective date at its March 2017 meeting. The proposed transitional provisions and effective date will thereafter be issued for public consultation.

Proposed Project Briefs for 2017/2018

Key decisions

The Board APPROVED project briefs for the following projects to be commenced in 2017/18:

- Interim Financial Statements.
- Desktop Review of the Statement of Financial Performance.

Background and deliberations

Following discussions at the last Board meeting on the prioritisation of projects for 2017/2018, the Board requested the Secretariat to revise the project brief on Interim

Financial Statements and develop a project brief for the Review of the Statement of Financial Performance.

The Secretariat revised the scope of the project on Interim Financial Statements to focus on researching whether it is necessary to develop requirements for the preparation of interim financial statements. The change in focus was necessary after the JSE did not, in the publication of its final amendments to the debt listing requirements, require the preparation of interim financial statements. The initial output of this project will be research findings which will assist the Board in deciding the next steps in the project.

The project on the Desktop Review of the Statement of Financial Performance will focus on reviewing entities' financial statements to gain a better understanding of how entities are presenting the statement of financial performance, why information is presented in a certain way, and to identify areas of non-compliance with GRAP 1 *Presentation of Financial Statements*. The output of this project will also be a report to the Board on the findings of the research, and where necessary, how the findings should be addressed.

Approval of the Project Briefs

The project briefs were approved.

Proposed Amendments to the Prefaces

Key decisions

The Board APPROVED the proposed amendments to the Prefaces to the Standards of GRAP, Interpretations of the Standards of GRAP and Directives.

Background and deliberations

The Board agreed that the Secretariat should review the Prefaces to the Standards of GRAP, Interpretations of the Standards of GRAP and Directives following the approval of the policy on *Nature of Pronouncements Issued by the Board*.

The Board approved a number of amendments to the Prefaces to align the wording with the new policy. The changes are administrative in nature and do not warrant public consultation.

It was identified that further amendments may be needed to the Prefaces based on the outcome of future projects of the Board.

The Board also raised the possibility of one Preface for all the pronouncements issued. This will be considered along with the other possible amendments identified.

Approval of the amendments to the Prefaces

The amendments to the Prefaces were approved for issue.

GENERAL

Next ASB meeting

The Board's next meeting is scheduled for 28 March 2017. As always, observers are welcome to attend these meetings, but it should be noted that space is limited. In order to accommodate observers at meetings, interested parties are asked to complete the registration form available on the website.

Accessing documents issued by the ASB

Persons and organisations interested in the activities of the ASB should monitor the website, www.asb.co.za, or contact info@asb.co.za, for the release of the latest Exposure Drafts for public comment.

A GRAP Handbook containing the latest amendments to the Standards of GRAP as well as other pronouncements issued by the Board has been published and is available to stakeholders. A copy of the order form can be accessed on the ASB's website.

Translated versions of the Standards of GRAP (isiZulu, Sesotho and Afrikaans) are available on the ASB's website.