

Newsletter 64 – March 2017

ACCOUNTING STANDARDS BOARD MEETING HELD ON 28 MARCH 2017

TECHNICAL ACTIVITIES

Overview

At its meeting on 27 March 2017, the Board considered the following documents that were recommended to the Board by the Technical Committee:

- Analysis of the comments received on the proposed Interpretation of the Standards of GRAP on *Recognition and Derecognition of Land* (ED 151) and amendments thereto.
- Analysis of the comments received on the proposed Standards of GRAP on *Interests in Other Entities* (EDs 144 to 148) and amendments thereto.
- Analysis of comments received on the proposed *Improvements to the Standards of GRAP (2016)* and amendments thereto.
- Proposed transitional provisions for GRAP 110 on *Living and Non-living Resources*.

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

Analysis of comments received on proposed Interpretation of the Standards of GRAP on Recognition and Derecognition of Land (ED 151)

Key decisions

- The Board DISCUSSED the comments received on ED 151 and AGREED that certain amendments should be made to the proposed Interpretation to respond to comments made by stakeholders.
- The Board AGREED the control criteria to be applied by an entity in assessing whether it controls land. A decision tree was also developed by the Board and included as an annexure to the proposed Interpretation.
- The Board AGREED to change the term “indefinite” to “unlimited” in relation to an entity's rights to use land.
- The Board AGREED to amendments to Chapter 7 of the Guideline on *Accounting for Arrangements Undertaken in Terms of the National Housing Programme*, and approved the publication of the Guideline.
- The Board APPROVED the Interpretation for issue as final pronouncement, and will be effective for financial years commencing on or after 1 April 2019.

Background and deliberations

The Board discussed the written and verbal comments received on ED 151. The analysis of the comments received and the Board's response thereto are available on the ASB's website.

Criteria to assess when an entity controls land

ED 151 was a re-exposure of the proposed Interpretation issued in Exposure Draft 139. In particular, the Board requested feedback on the criteria to be used to assess whether an

entity controls land. Respondents supported the criteria proposed in ED 151, which were as follows:

- legal ownership; and/or
- the right to direct access to land, and to restrict or deny the access of others to land.

Based on feedback received from the project group that the application of the control criteria is complex and requires judgement, the Board developed a decision-tree to assist preparers in assessing control.

Rights of an entity to use land

The proposed Interpretation required an entity to assess its rights to use land, including whether the right of use is for an indefinite period. The Board debated whether the term “indefinite” is appropriate. The Board agreed that the term “indefinite” is inappropriate as it indicates that the period over which the asset is used is unknown, The Board instead agreed that the term “unlimited” should be used as it is meant to refer to the use of land over its economic life.

Amendments to the Guideline on Accounting for Arrangements Undertaken in Terms of the National Housing Programme

The Board provided in principle approval of the Guideline in December 2016, subject to a review of the Guideline in March 2017 when the proposed Interpretation on land is considered. Based on the final amendments made to the proposed Interpretation, chapter 7 of the Guideline which deals with land used in housing arrangements was modified.

The Board approved the publication of the Guideline.

Approval of the proposed Interpretation and its application

The Board approved the Interpretation for issue as a final pronouncement. The Interpretation is effective for financial years commencing on or after 1 April 2019. On initial adoption of the Interpretation, it should be applied prospectively to all binding arrangements relating to land that exist on the effective date.

Analysis of the comments received on the proposed Standards of GRAP on Interests in Other Entities (EDs 144 to 148)

Key decisions

- The Board DISCUSSED the comments received on EDs 144 to 148. No significant changes were made to the Exposure Drafts.
- The Board AGREED to include the equity method of accounting for investments in an entity’s separate financial statements.
- The Board AGREED that certain practical application issues related to the preparation of the consolidated financial statements required in the Public Finance Management Act (PFMA) should be considered as part of the Board’s project on this topic.
- The Board APPROVED the proposed Standards of GRAP on *Interests in Other Entities* as final pronouncements. Once effective, the existing Standards of GRAP will be withdrawn.

- The Board AGREED to consider proposed transitional provisions and the effective date at its next meeting.

Background and deliberations

The Board discussed the written and verbal comments received on EDs 144 to 148.

Respondents expressed support for the proposed Standards of GRAP on:

- Separate Financial Statements.
- Consolidated Financial Statements.
- Investments in Associates and Joint Ventures.
- Joint Arrangements.
- Disclosure of Interests in Other Entities.

The Board specifically requested feedback from respondents about whether the equity method should be used to account for investments in other entities in separate financial statements. Respondents supported the use of the equity method.

Some respondents indicated that it may be difficult to apply aspects of the Standards when preparing the consolidated financial statements of the national and provincial governments required by the PFMA. In particular, respondents noted concerns about the application of control, and how to deal with reporting entities with different year ends. The Board agreed to include the consideration of these issues in a project on consolidated financial statements that it will undertake in the second half of 2017.

Approval of Standard and next steps

The Board approved the proposed Standards of GRAP for issue as final pronouncements. Once these Standards become effective, GRAP 6 *Consolidated Financial Statements*, GRAP 7 *Investments in Associates*, and GRAP 8 *Interests in Joint Ventures* will be withdrawn.

The Board will consider proposed transitional provisions and an effective date at its June 2017 meeting.

Proposed Improvements to the Standards of GRAP (2016)(ED 152)

Key decisions

The Board APPROVED the proposed *Improvements to the Standards of GRAP (2016)*, with a proposed effective date of 1 April 2018.

Background and deliberations

The Board discussed the written and verbal comments received on ED 151.

Respondents generally supported the amendments to the Standards of GRAP. Some respondents questioned the transitional provisions for the amendment to GRAP 17 *Property, Plant and Equipment* dealing with revenue based depreciation methods. ED 152 proposed that this amendment is applied prospectively. The respondents that raised this issue were of the view that, because the amendment indicates that revenue based depreciation methods are inappropriate, retrospective application of the change may be warranted. The Board agreed to retain the transitional provisions as prospective for the following reasons:

- Both the International Public Sector Accounting Standards Board (IPSASB) and International Accounting Standards Board (IASB) required prospective application of the changes. It was observed that diversity existed in practice particularly for assets that are part of service concession arrangements.
- A change in depreciation method is a change in accounting estimate, which requires prospective application.

The Board also considered whether any amendments were needed to newly issued GRAP 110 on *Living and Non-living Resources* as a result of the amendments made to the Standards in ED 152. The Board agreed to include additional amendments to GRAP 110 in ED 152.

Approval of the proposed *Improvements to the Standards of GRAP (2016)*

The proposed Improvements to the Standards of GRAP for 2016 were approved. An effective date of 1 April 2018 is proposed. Final approval of the amendments and the effective date is required by the Accountant-General.

Proposed Transitional Provisions for GRAP 110 on Living and Non-living Resources

Key decisions

The Board APPROVED the proposed transitional provisions for GRAP 110 as an Exposure Draft (ED 154), with a comment deadline of 31 July 2017.

Background and deliberations

The Board discussed proposed transitional provisions for GRAP 110 along with the proposed effective date. Transitional provisions were considered only for living resources as non-living resources are not recognised in terms of GRAP 110.

In proposing transitional provisions for GRAP 110, the Board considered entities' past practices in accounting for living resources and any issues raised by respondents during the development of the Standard.

Entities applied a range of accounting policies to recognise living resources, and as a result, there is substantial diversity in practice.

During the consultation on the proposed Standard, respondents indicated that determining a value for living resources may be difficult, particularly if the resources are acquired in a non-exchange transaction, or when an entity applies the revaluation method.

As a result, the Board agreed the following transitional provisions:

- Allow entities a three-year period to comply with the measurement requirements of the Standard.
- Require retrospective application of the Standard to all living resources that exist on the date of adopting the Standard.

Approval of the proposed transitional provisions

The proposed transitional provisions for GRAP 110 were approved for issue as an Exposure Draft (ED 154). The comment deadline is 31 July 2017.

GENERAL

Next ASB meeting

The Board's next meeting is scheduled for 22 June 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.