

## Newsletter 61 – September 2016

### ACCOUNTING STANDARDS BOARD MEETING HELD ON 29 SEPTEMBER 2016

#### TECHNICAL ACTIVITIES

##### Overview

At its meeting on 29 September 2016, the Board considered the following technical documents that were recommended to the Board by the Technical Committee:

- Analysis of the comments received on the proposed IGRAP on *Recognition and Derecognition of Land* (ED 139) and amendments thereto.
- Proposed IGRAP on *Liabilities to Pay Levies*.
- Proposed Improvements to the Standards of GRAP 2016.
- Proposed project briefs for projects commencing 1 April 2017.

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

#### **Analysis of comments received on ED 139 Proposed IGRAP on Recognition and Derecognition of Land**

##### **Key decisions**

- The Board discussed the comments received on ED 139 and REVISED the proposed IGRAP. Based on the changes made, the proposed IGRAP will again be issued for comment.
- The Board AGREED to revise the indicators of control.
- The proposed effective date of the IGRAP is 1 April 2019.

##### **Background and deliberations**

The Board issued ED 139 for comment in December 2015, with a comment deadline of 15 June 2016. The Board analysed the comments received and debated a number of issues, some of which resulted in amendments to the proposed IGRAP. The key issues debated by the Board are outlined below.

##### *Alternative approaches to recognising land*

The Board considered two alternative approaches proposed by respondents.

The first approach involves the recognition of the right-to-use of land, similar to the new approach in IFRS 16 on *Leases*. Applying this approach to the recognition and derecognition of land would mean that the entity that is the legal owner of the land will recognise the physical land, while the entity that uses the land, recognises its right-of-use of the land. The right-of-use asset would be depreciated over the lease period.

The second approach proposed that the current principles in the IGRAP should only be applied to transactions that involve entities outside the government, or transactions within government where there is a clear commercial objective. It was proposed that a second model should be developed that focuses on transactions within government or between government entities where there is no commercial objective. As such, the IGRAP would include two different models for the recognition and derecognition of land.

The Board did not support these approaches, and confirmed its previous decision that the proposed IGRAP should be based on the principles in the Conceptual Framework (Framework) and the principles in existing Standards of GRAP.

#### *Indicators of control*

ED 139 outlined three indicators that entities needed to assess to determine if they control land. These indicators were as follows:

- (a) Legal ownership.
- (b) The right to direct access to land, and to restrict or deny the access of others to land.
- (c) The existence of an enforceable right to service potential or the ability to generate future economic benefits or service potential arising from the land.

Respondents raised two issues in relation to the indicators of control:

- The third indicator of control focused on an entity's rights to use land. ED 139 indicated that, for an entity to control land, it should be able to demonstrate that it has the right to use land for a long enough period to reflect the indefinite nature of land. Clarity was sought on when a right of use is sufficiently long.
- Guidance is needed on who will control the land where one entity has the right to direct or restrict or deny the access of others to the land, while another entity demonstrates that it has an enforceable right to use the land.

The initial proposal in response to the issues raised was to clarify the third indicator of control by requiring entities to assess whether they have the right of use for an indefinite period of time. It was however argued that entering into an arrangement to use land for an indefinite period of time may be insufficient to demonstrate control. It was noted that, even though an entity may be granted the right to use land for an indefinite period of time, it may be difficult to prove that the use of the land is for an indefinite period without considering the parties' intentions in exercising their rights. The entity's right of use may also be restricted as to how it is able to use the land.

The Board agreed that the third indicator of control should be deleted. An entity's rights of use will still be considered as part of the second indicator of control. However, an entity will only be able to demonstrate that it controls land if it has the right of use for an indefinite period, and it has other substantive rights such as those listed in paragraph .27 of the proposed IGRAP.

#### *Existence of a binding arrangement*

ED 139 required that entities identify their rights and obligations in relation to land based on binding arrangements in place. Binding arrangements include contractual arrangements, legislation or similar means, and common law.

A number of respondents made the observation that a binding arrangement may not always be in place. This is frequently the case for arrangements between public sector entities and traditional authorities.

Through consultation with key stakeholders, it was confirmed that there is evidence of a binding arrangement in the majority of instances. As a result, the requirements in ED 139 were unchanged.

### *Effective date of amendment to GRAP 13 on Leases*

During the Board's 2009 Improvements Project, an amendment was made to GRAP 13 on *Leases* regarding the classification of leases of land as either finance or operating leases. The Board delayed the effective date of this amendment because of the guidance issued by the OAG on land which focused on the prevailing legislative requirements.

As the OAG's Guide will be updated to align it with the proposed IGRAP, the Board agreed that the amendment should be made effective. The Board agreed that the effective date of paragraph 17 of GRAP 13 should be aligned with the effective date of the proposed IGRAP, i.e. 1 April 2019.

### ***Transitional provisions and effective date***

The Board proposes prospective application of the proposed IGRAP to all arrangements that exist on the date of initial adoption. This will avoid having to apply hindsight to facts and circumstances that may have existed in previous reporting periods.

The Board agreed that, because the proposed IGRAP will require entities to re-assess the way in which they account for land, the effective date should be delayed to 1 April 2019. This will allow entities sufficient time to comply with the requirements of the proposed IGRAP. No other transitional relief will be provided.

### ***Approval of the Exposure Draft and next steps***

The Board approved the proposed IGRAP on *Recognition and Dereognition of Land* for re-exposure. The comment deadline is 15 December 2016.

### ***Proposed IGRAP on Liabilities to Pay Levies (ED 153)***

#### **Key decisions**

- The Board APPROVED the proposed IGRAP on *Liabilities to Pay Levies* for issue as an Exposure Draft.
- The Exposure Draft will have a comment deadline of 31 January 2017.

#### **Background and deliberations**

At the June 2016 meeting, the Board considered an analysis of the types of levies paid by entities in the public sector, and whether IFRIC 21 on *Levies* provides useful guidance to account for the levies paid. The Board agreed that an equivalent of IFRIC 21 should be developed, but that modifications would be needed to make it public sector specific.

In developing the proposed IGRAP, the Board deliberated the following key issues outlined below.

#### *Title of the proposed IGRAP*

The Board agreed that the title of the proposed IGRAP should make it clear that it deals with accounting issues related to the payment of levies. The Board agreed that the title of the proposed IGRAP should be "*Liabilities to Pay Levies*" rather than "*Levies*".

#### *"Levies" within the scope of the proposed IGRAP*

IFRIC 21 indicates that liabilities to pay levies imposed by government on an entity should be recognised using the principles in the Interpretation. IFRIC 21 excludes payments for

goods, services and assets from its scope as there are not deemed to be levies, because the payments are made in exchange for the receipt of goods or services.

In identifying which “levies” should be within the scope of the proposed IGRAP, the Board noted that the levies should be imposed on a public sector entity by a national, provincial, local or foreign government, and that the levies should arise from non-exchange transactions. The Board considered that, because IFRIC 21 makes it clear that payments for goods, services and assets are not levies, all levies that arise from exchange transactions should be excluded from the scope of the proposed IGRAP.

The Board noted that where other Standards of GRAP deal with the payment of levies, e.g. IAS 12 on *Income Taxes* or GRAP 25 on *Employee Benefits*, an entity should apply those Standards. Any levies payable in relation to emissions trading schemes are also outside the scope of the proposed IGRAP.

#### *Treatment of Value Added Tax (VAT)*

The Board debated whether Value Added Tax should be recognised in accordance with the proposed IGRAP. When an entity is a VAT vendor, it collects or pays VAT as an agent. As a result, VAT transactions are not transactions of the entity. When an entity is not a VAT vendor, any VAT paid merely forms part of the cost of the goods or services. The Board agreed that VAT should not be recognised in accordance with the proposed IGRAP.

#### *Recognition of levies*

As in IFRIC 21, the Board agreed that liabilities to pay levies should be recognised based on the activity specified in legislation. A liability should be recognised progressively if the activity that triggers the payment of the levy occurs over time.

#### ***Transitional provisions and effective date***

The Board did not consider that any specific transitional provisions were needed for the initial adoption of the proposed IGRAP. As a result, entities apply GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

The proposed effective date is yet to be determined.

#### ***Approval of Exposure Draft and next steps***

The Board approved the Exposure Draft of the proposed IGRAP on *Liabilities to Pay Levies* for issue. The comment deadline is 31 January 2017.

#### **Improvements to the Standards of GRAP 2016 (ED 152)**

##### **Key decisions**

- The Board APPROVED the proposed *Improvements to the Standards of GRAP 2016* for issue as an Exposure Draft.
- The Exposure Draft will have a comment deadline of 30 December 2016.
- The proposed effective date of the amendments is 1 April 2018.

##### **Background and deliberations**

The Board considered an analysis of potential amendments to the Standards of GRAP which could form part of the Improvements Project 2016. The analysis consisted of the following:

- Potential amendments identified by stakeholders.
- Amendments made by the IPSASB in its Improvements Projects for 2014 and 2015.
- Amendments made by the IASB in its Improvements Projects for 2010-2012, 2011-2013 and 2012-2014. Narrow scope amendments were also considered for inclusion in the project.

A comprehensive analysis of the amendments considered by the Board is included in Annexure A of the Exposure Draft.

The Board proposed amendments to the Standards of GRAP in the following areas:

- Clarified the treatment of transaction costs when assets are acquired in non-exchange transactions.
- Revised the wording on the measurement of assets in like-for-like exchanges of assets.
- Amended the measurement of bearer plants.
- Clarified how assets should be restated when they are measured using the revaluation model.
- Provided guidance on the classification of military assets.
- Included requirements for entities to assess whether the acquisition of an investment property is the acquisition of an asset (or group of assets) or a transfer of functions.
- Provided guidance on the appropriateness of revenue based depreciation methods for property, plant and equipment and intangible assets.
- Clarified the recognition of changes in the remeasurement of contingent consideration acquired in a transfer of functions not under common control.

### **Approval of the Exposure Draft and next steps**

The Board approved the proposed Exposure Draft of the *Improvements to the Standards of GRAP* for 2016 for issue. The comment deadline is 30 December 2016.

The transitional provisions are outlined in the Exposure Draft for each of the amendments proposed.

The proposed effective date of the amendments is 1 April 2018.

### ***Proposed project briefs for the period commencing 1 April 2017***

#### **Key decisions**

The Board APPROVED project briefs for the projects to be commenced on 1 April 2017.

#### **Background and deliberations**

Following the consultation on the ASB's work programme for the period 2017 to 2020, the Board agreed to undertake a number of projects. The details of the Board's planned activities for the period 2017 to 2020 are available on the ASB's website.

The Board approved project briefs outlining the scope and key issues related to the following projects, which are to be commenced for the period commencing 1 April 2017. The Board approved project briefs for the following projects:

- The Application of Materiality in the Preparation of Financial Statements.
- A review of GRAP 104 on *Financial Instruments*.
- Accounting for Landfill Sites.
- Accounting for Adjustments to Revenue.
- Identifying issues related to the preparation of national and provincial consolidated financial statements.
- Review of the preparation and presentation of Statements of Financial Performance.

The Board had initially agreed to develop a Standard of GRAP on the preparation of interim financial statements in 2017. This decision was based on proposed changes to the JSE's debt listing requirements. However, in the final amendments to the debt listing requirements published in September 2016, there was no requirement to prepare interim financial statements.

The Board debated whether it should suspend work on interim financial statements. It was agreed that there may be other legislation, debt covenants or other requirements that require entities to prepare of interim financial statements.

As a result, the Board agreed to retain a project on interim financial statements on its work programme for 2017/18, but that this would be a research project to identify whether guidance on interim financial statements is needed.

## **GENERAL**

### **Next ASB meeting**

The Board's next meeting is scheduled for 1 December 2016. 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](http://www.asb.co.za), or contact [info@asb.co.za](mailto: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.