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Responses due by 15 April 2010

**INVITATION TO COMMENT ON THE PROPOSED
AMENDMENTS TO DIRECTIVES 2 TO 4
PRESCRIBING THE TRANSITIONAL PROVISIONS
FOR THE STANDARD OF GRAP ON
*PROVISIONS, CONTINGENT LIABILILTIES AND
CONTINGENT ASSETS (GRAP 19)***

(ED 69)

Issued by the
Accounting Standards Board
February 2010



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Commenting on this exposure draft

The Accounting Standards Board (the Board) seeks comment on the exposure draft proposing amendments to Directives 2 to 4 prescribing the transitional provisions for the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19).

The proposals in this exposure draft may be modified in the final documents in the light of comment received.

Comment should be submitted in writing so as to be received by **15 April 2010**. E-mail responses are preferred. Unless respondents to this exposure draft specifically request confidentiality, their comment is a matter of public record once the Directives to the Standards of GRAP have been amended and issued. Comment should be addressed to:

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INTRODUCTION

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (national and provincial);
- (b) public entities;
- (c) constitutional institutions;
- (d) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (e) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) trading entities (as defined in the PFMA);
- (c) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (d) entities under the ownership control of any of these entities.

The Board believes that Statements of GAAP are relevant and applicable to financial statements prepared by all such entities, including those under their ownership control.

Section 89(1)(b) of the PFMA, requires the Board to prepare and publish directives and guidelines concerning the Standards of GRAP as set in paragraph 89(1)(a) of the PFMA. The *Preface to the Standards of GRAP* determines that directives will be used to set transitional provisions and transitional arrangements for the entities required to comply with Standards of GRAP. Directives issued by the Board in terms of section 89(1)(b) of the PFMA therefore have the same authority as the Standards of GRAP.

Directives should be read in conjunction with the relevant Standard(s) of GRAP, as well as the *Preface to the Directives*.



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Background and purpose of this exposure draft

Directives 2 to 4, containing the transitional provisions for the initial adoption of the Standards of GRAP, were issued by the Board in February 2008. In updating these Directives for new Standards of GRAP approved by the Board, the Board acknowledged that the transitional provisions included for the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19) should be clarified.

The purpose of this exposure draft is to propose amendments to the transitional provisions of GRAP 19 as included in Directives 2 to 4. Once the proposed amendments to the transitional provisions for GRAP 19 are approved by the Board, the amended transitional provisions will be included in Directives 2 to 4.

In addition, the Board has deleted paragraphs dealing with transitional provisions previously included in the Standards of GRAP. Further minor amendments to ensure consistency between the transitional provisions in Directives 2 to 4 were also made as part of this process. A copy of the full marked-up versions is available on the Board's website.

Due process and timetable

The due process followed by the Board in proposing amendments to the proposed transitional provisions to be included in Directives 2 to 4, is for the Board to receive comment on the proposals set out in this exposure draft from preparers, users, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, all interested parties are invited to provide comment.

Upon the closure of the comment period, the Board will consider the comment received on the exposure draft and may modify the proposed amendments in the light of the comment received before revising the transitional provisions in Directives 2 to 4.

Request for comment

Comment on this exposure draft is invited by **15 April 2010**. The Board requires that respondents express an overall opinion on whether the exposure draft, in general, is supported and supplement this opinion with detailed comment, whether supportive or critical, on the principles in the exposure draft. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where this is appropriate.

The basis for accepting or rejecting significant comment will be published on the website.

AMENDMENTS TO DIRECTIVES 2 TO 4 PRESCRIBING THE TRANSITIONAL PROVISIONS

Proposed amendments to transitional provisions for the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*

The transitional provisions for the initial adoption of the Standard of GRAP *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 196), are to be amended in:

- Directive 2 *Transitional Provisions for Public Entities, Municipal Entities and Constitutional Institutions* (paragraphs .56A and .56B);
- Directive 3 *Transitional Provisions for High Capacity Municipalities* (paragraphs .76 and .77); and
- Directive 4 *Transitional Provisions for Medium and Low Capacity Municipalities* (paragraphs .92 and .93).

Deleted text is struck through while additional text is underlined.

GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*

Transitional provisions

- .01** *Where provisions, ~~contingent liabilities and contingent assets~~ are acquired through a transfer of functions, the entity is not required to measure these provisions, ~~contingent liabilities and contingent assets~~ for a period of three years from the effective date of the Standard or the effective date of the transfer of functions, whichever is later, subject to the provisions in paragraphs .02 and .05 below.*
- .02** *If the initial accounting for provisions, ~~contingent liabilities and contingent assets~~ is incomplete by the end of a reporting period in which the Standard becomes effective or the transfer occurs, whichever is later, the entity shall report in its financial statements provisional amounts for those provisions, contingent liabilities and contingent assets for which the accounting is incomplete. During the measurement period, the entity shall retrospectively adjust the provisional amounts recognised to reflect new information obtained about facts and circumstances that existed on the transfer date in accordance with paragraph .01, and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the entity shall also recognise additional provisions, ~~contingent liabilities and contingent assets~~ if new information is obtained about the existence of those provisions facts and circumstances that existed at the transfer date, and, if known, would have resulted in the recognition of those provisions, ~~contingent liabilities and contingent assets~~ at that date. The measurement period ends as soon as the entity receives the information it is ~~was~~ seeking about facts and circumstances that existed at the transfer date, or learns that no more information is*

obtainable. However, the measurement period shall not exceed three years from the effective date of the Standard or the transfer date, whichever is later applicable.

.03 Where contingent liabilities and contingent assets are assumed through a transfer of functions, the entity is not required to disclose those contingent liabilities and contingent assets for a period of three years from the effective date of the Standard of GRAP or the transfer of functions, whichever is later, subject to the provisions in paragraphs .04 and .05.

.04 If the initial disclosure of contingent liabilities and contingent assets is incomplete by the end of a reporting period in which the Standard becomes effective or the transfer occurs, whichever is later, the entity shall disclose in its financial statements provisional amounts for those contingent liabilities and contingent assets for which the disclosure is incomplete. During the measurement period, the entity shall retrospectively adjust the provisional amounts disclosed to reflect new information obtained about facts and circumstances that existed on the transfer date in accordance with paragraph .03, and, if known, would have affected the disclosure of contingent liabilities and contingent assets as of that date. During the measurement period, the entity shall also disclose additional contingent liabilities and contingent assets if new information is obtained about facts and circumstances that existed at the transfer date, and, if known, would have resulted in the disclosure of those contingent liabilities and contingent assets as of that date. The measurement period ends as soon as the entity receives the information it was seeking about facts and circumstances that existed at the transfer date or learns that no more information is obtainable. However, the measurement period shall not exceed three years from the effective date of the Standard or the transfer date, whichever is later.

.05 The measurement period is the period after the effective date of the transfer of functions during which the entity may adjust the provisional amounts recognised or provisional amounts disclosed. The measurement period provides the entity with a reasonable time to obtain the information necessary to identify, measure and/or disclose the provisions, contingent liabilities and contingent assets, whichever is applicable.