Accounting Standards Board

ANALYSIS AND RESPONSES TO VERBAL COMMENT RECEIVED ON THE

PROPOSED STANDARD OF GRAP ON *LIVING AND NON-LIVING RESOURCES*

(ED 143)

RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED STANDARD OF *GRAP ON LIVING AND NON-LIVING RESOURCES* (ED 143)

The Accounting Standards Board (Board) approved the Exposure Draft of the proposed Standard of GRAP on *Living and Non-living Resources* (ED 143) in March 2016 for comment. A Notice was also published in the Government Gazette on the 22nd of April 2016 (Notice 39943). The comment period closed on 29 July 2016.

The proposed Standard of GRAP was discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or other meetings as listed in the table on the next page. In addition, a presentation on the proposed Standard of GRAP was also made during a SAICA webcast.

The results from the workshops, roundtable discussions or other meetings are summarised in this document, and include the Board's responses to the comment received.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED STANDARD OF GRAP ON *LIVING AND NON-LIVING RESOURCES* (ED 143)

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Mpumalanga Provincial Treasury			√		
2.	SALGA and IMFO joint consultative session (Gauteng, Limpopo, North West, Mpumalanga)		√			
3.	SALGA and IMFO joint consultative session (Eastern Cape, Free State and Northern Cape)		√			
4.	Public Sector Accounting Forum		√			
5.	Roundtable discussion with various stakeholders		√			
6.	North West Public Sector Forum		√			
7.	Roundtable discussion with SANPARKS and the National Research Foundation		√			
8.	SAICA Webcast					√
	TOTAL	7	5	1	0	1

No.	Comment	Board's response
1.	**Mpumalanga Provincial Treasury**	
1.1	Participants generally supported the principles in the proposed Standard, including the proposed indicators to assess control.	Noted. No further action required.
1.2	It was questioned whether the Board considered the cost versus benefit in requiring an entity to apply the revaluation model in accounting for its living resources. Participants noted that it may be challenging to obtain the value of some living resources, and as animals mature, more frequent valuations may be required. This will result in increased valuation costs.	Noted. As the Board considered the cost versus benefit, the Standard of GRAP allows an entity to apply either the cost model or the revaluation model. As other respondents supported the inclusion of both models in the Standard, the Board agreed that both models should be retained for subsequent measurement. This will enable entities to select the most appropriate measurement model depending on its specific circumstances.
2.	**SALGA and IMFO joint consultative session (Gauteng, Limpopo, North West, Mpumalanga)**	
2.1	The majority of the respondents supported the principles in the proposed Exposure Draft, and agreed with the indicators of control.	Noted. No further action required.
3.	**SALGA and IMFO joint consultative session (Eastern Cape, Free State and Northern Cape)**	
3.1	Respondents supported the principles in the proposed Exposure Draft.	Noted. No further action required.

4.	**Public Sector Accounting Forum**	
4.1	There are likely to be challenges with the practical application of the indicators of control, particularly for plants as the only relevant indicator is the management of the physical condition of the resource. Justifying the management of the physical condition could be subjective, and the Board should therefore consider refining the indicators of control.	Noted. Even though the Standard requires the application of judgement and notes that the indicators could be applied individually or in combination to conclude that control exists, paragraph .19 has been clarified to explain that not all the indicators may be applicable in all circumstances.
4.2	In the example of plants where an entity needs to assess whether the physical condition of the resources is managed, a clear distinction should be made between general street maintenance and active management of the condition of the plants.	Noted. The Standard has been amended to explain the consideration of ongoing maintenance on the entity's assessment of control.
4.3	It was questioned at which point an entity stops capitalising costs, such as the costs to nurture an offspring to maturity.	Noted. The Standard makes a clear distinction between costs to be capitalised and those that are regarded as day-to-day costs to be expensed. The guidance on the elements of cost has been expanded to explain that day-to-day operating costs are costs incurred by an entity to manage the qualitative and quantitative changes of the biological transformation. Depending on its reason for holding the living resource, the entity assesses whether the costs incurred are day-to-day operating costs, or whether the costs incurred enhance the future economic benefits or service potential of the resource.
4.4	Concerns were raised on how values for some living and non-living resources will be determined. Participants suggested that the ASB should consult with and field test the valuation principles with valuers prior to recommending an	Noted. Consultations will be undertaken with valuers when the proposed transitional provisions and effective date are issued for comment.

	effective date for the proposed Standard. This consultation will have the objective of confirming: • whether fair values will be available for all living resources; • if it would be difficult to obtain a fair value for living resources at different stages in its life cycle; and • what the practical challenges may be in obtaining fair values.	
4.5	The value of qualitative versus quantitative information about the resources for the financial statements was questioned.	Noted. The Board agreed that users of financial statements will find qualitative information useful for accountability and decision making purposes. The Board agreed that the disclosing the quantity of resources may not provide useful information to users of the financial statements, and have deleted this requirement from the Standard.
5.	**Roundtable discussion with various stakeholders**	
5.1	The examples in the Exposure Draft should be expanded to also include plants.	Noted. The examples in the Standard have been amended to also include plants, where appropriate.
5.2	Respondents noted that not all the indicators of control can be applied to plants, for example, the ability to restrict the movement of the living resources. It was recommended that this should be clarified in the proposed Standard.	Even though the Standard requires the application of judgement and notes that the indicators could be applied individually or in combination to conclude that control exists, the Standard has been amended to explain that not all the indicators are be applicable in all circumstances.
5.3	Based on its assessment of the indicators of control, an entity may conclude in	Noted. Guidance has been included in the Standard to explain that

	one year that the living resource should be recognised as an asset, while in the following year it should be de-recognised as control is no longer met. The reverse is also possible, i.e. the living resources is not recognised in one year as control is not met, but based on a change in the nature of the living resource, for example, when management decides to use the animal for breeding purposes, control is now met. It was questioned how these changes between the different reporting periods should be addressed in preparing financial statements.	an entity should re-assess its initial assessment of control of a living resource when the purpose for which the resource is held, changes. However, in considering whether any changes should be reflected in the financial statements, materiality should also be considered.
5.4	Land is scoped out of the proposed Standard of GRAP. However, paragraph .09 includes land as an example of a non-living resource, irrespective of the scope exclusion. Respondents recommended that, as this may result in some confusion, the proposed Standard should be amended to refer to “non-living resources, other than land”, similar to the wording used in paragraph .14.	Noted. The Standard has been amended to explain that the principles in the Standard of GRAP do not apply to land and extracted water, minerals, oils and gas and other non-regenerative resources. The reference to non-living resources, that excludes land, has been amended in the Standard as proposed, where appropriate.
5.5	Paragraph .07 notes that when resources will be used in an entity’s operations at a future date, the Standard of GRAP on *Inventories* (GRAP 12) should be applied to account for these living resources. However, applying GRAP 12 may not always be appropriate as the entity needs to assess for how long, and for what purpose, it intends to hold the living resource. It was therefore recommended that the reference to GRAP 12 should be replaced with a reference to “the applicable Standard of GRAP”.	Noted. The Standard has been amended to explain that an entity should apply the applicable Standard of GRAP based on the reason for holding the living resource.
5.6	Other asset related Standards of GRAP refers to a “class of assets”. It was	Noted. Based on the nature of the assets involved, the Board agreed

	questioned whether the definition of a "group of resources" should be aligned with the reference used in other Standards of GRAP.	that the term "group" is more appropriate when referring to living animals and plants. As such, no amendment was made by the Board.
5.7	The relevance of the second part of the definition of "useful life" in relation to this proposed Standard, was questioned. It was proposed that the last part of the definition should be deleted.	Noted. However, as the Board wants to align the definitions in all the Standards of GRAP where possible, the Board agreed that the last part of the definition should not be deleted.
5.8	Examples of how the elements of cost apply to plants should be included in the proposed Standard.	Noted. The guidance on the elements of cost in the Standard has been expanded to explain that day-to-day operating costs are costs incurred by an entity to manage the qualitative and quantitative changes of the biological transformation. Depending on its reason for holding the living resource, the entity assesses whether the costs incurred are day-to-day operating costs, or whether the costs incurred enhance the future economic benefits or service potential of the resource. An example on how these principles apply to plants has also been included.
5.9	Clarification on when subsequent costs should be included as part of the cost of the living resource, was requested. It was proposed that clarification should be included between paragraphs .37 and .38.	Noted. See the response to comment 5.8.
5.10	Paragraph .44 and .45 makes reference to a reporting period. Respondents requested clarification on whether "reporting period" refers to twelve months after the living resource was acquired or obtained, or whether if refers to	Noted. The Standard of GRAP on *Presentation of Financial Statements* explains that a reporting period covers normally covers a one year period. The Standard has been amended to clarify that an

	entity's financial period.	entity should choose its accounting policy based on whether it intends to hold the living resource for less, or more than twelve months from the reporting date. This comment will also be highlighted to the Office of the Accountant–General for its consideration in developing implementation guidance.
5.11	Paragraph .59 requires that the entire group of living resource should be revalued. Based on this requirement, it was questioned whether living resources that are at different maturity levels within the group should all be revalued even though the entity knows upfront that the value of a specific living resource within that group has not changed.	Noted. The Standard requires that a group of living resources comprise assets of a similar nature or function in an entity's operations. The guidance in the Standard has been expanded to explain that the same type of living resource can be grouped into mature and immature depending on the living resource's function in an entity's operations. This comment will also should be highlighted to the Office of the Accountant–General for its consideration in developing implementation guidance.
5.12	It was questioned how an entity should apply the depreciation principles to plants.	Where the entity concludes that it controls plants after demonstrating the indicators of control, the Standard indicates that depreciation of the living resource begins when the resource is available for use. Thus, depending on the function and nature of the plants under its control, the entity should start depreciating the plants when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Prior to that, plants should not be depreciated.

		The Board agreed that the guidance included in the Standard is appropriate, and therefore, this comment will be highlighted to the Office of the Accountant–General for its consideration in developing implementation guidance on depreciation.
5.13	The Board should reconsider the requirement in paragraph .103 that a cross reference to other documents can be included in the financial statements that reflects an entity's custodial responsibilities. This requirement is too broad, as information could be presented on, for example, the entity's website. This would make the audit of such information very complex.	Noted. If an entity is required to disclose information about its custodial responsibilities, the disclosure may be a duplication of information already included in other documents, especially when the disclosure includes information from legislation or similar means. The Board therefore agreed that entities should be allowed to cross-reference to other information published at the same time as the financial statements.
5.14	The disclosure requirement in paragraph .104 should be expanded to require management to disclose the judgements and assumptions applied to determine at what point extraction takes place.	Noted. This recommendation is outside the scope of this Standard. However, a consequential amendment has been included in GRAP 12 on *Inventories* that requires an entity to include a description of key judgements made and assumptions applied in its financial statements to explain at what point water, minerals, oils and gas and other non-regenerative resources meet the definition of inventory.
5.15	Respondents noted that it may be difficult in some instances to disclose the quantity of non-living resources for which the entity is responsible, as required in paragraph .104(a). It was proposed that this disclosure requirement should be reconsidered.	Noted. The disclosure requirements have been amended to require the disclosure of the nature and types of resources for which the entity is responsible. The requirement to present the quantity has been deleted as the Board did not believe it would provide useful information to users of the financial statements.

5.16	The encouraged disclosure requirement in paragraph .106 should be deleted following the Board's policy adopted during the Post-Implementation Review project that all encouraged disclosure requirements, should be minimised.	Noted. The Board agreed that the information required in this disclosure will provide useful information to the users of the financial statements. The wording has been amended to require that the information shall be disclosed when it provides useful and relevant information to users.
5.17	It was proposed that the disclosure requirements in paragraph .114 should be separated between those living resources that could not be recognised because (a) the definition of an asset was not met and (b) a reliable measurement on initial recognition could not be obtained.	Noted. As the disclosure requirements for living resources where the definition of an asset is not met, or where the recognition criteria in the Standard are not met are similar. To avoid duplication of similar disclosure requirements, the Board agreed that the paragraph should be retained and amended where appropriate.
6.	**North West Public Sector Forum**	
6.1	It was questioned how the depreciation principles should be applied while the animal has not yet reached maturity.	Where the entity concludes that it controls animals after demonstrating the indicators of control the Standard indicates that depreciation of the living resource begins when the resource is available for use. Thus, depending on the function and nature of the animals under its control, the entity should start depreciating these resources when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Prior to that, animals under the entity's control should not be depreciated. The Board agreed that the guidance included in the Standard is appropriate, and the comment will therefore be highlighted to the Office of the Accountant–General for its consideration in developing

		implementation guidance on depreciation.
7.	**Roundtable discussion with SANPARKS and the National Research Foundation**	
7.1	The application of the proposed Standard to zoos was questioned. Respondents noted that, even though a zoo's core function is to protect and care for animals, the cost versus the benefit of recognising these animals as an asset in the financial statements, is debatable. Respondents also noted that attaching a value to an animal is in some instances not allowed due to international and/or ethical restrictions. Respondents questioned the requirement to value an animal that it never intends to sell. If a value is attached to an animal, and that animal had to be put down for example, for health reasons, a loss would have to be recognised in the statement of financial performance. Depending on the type of animal (for example a gorilla versus a springbuck), this may have huge implications in the entity's statement of financial performance. As a result, is was proposed that the recognition and measurement of zoo animals should be scoped out of the proposed Standard of GRAP. Instead, zoos should only be required to disclose certain information to the users of the financial statements about the animals under its control.	Noted. During the development of the Standard of GRAP, the Board considered the costs versus the benefits. As the Board cannot provide exemptions to entities from applying Standards of GRAP, a request should be submitted to the Minister of Finance.
7.2	The proposed Standard should allow an entity to decide on the nature of the disclosures it wants to include in its financial statements in relation to the quantity of animals under its control. Some information may be sensitive in nature, for example, the number of rhinos in the Kruger National Park, and SANPARKS would therefore not want to disclose this information in its financial	Noted. The Board agreed that users of financial statements will find qualitative information useful for accountability and decision making purposes. The disclosure requirements have been amended to require the

	statements. The proposed Standard should allow an entity to apply its discretion.	disclosure of the nature and types of resources for which the entity is responsible. The requirement to present the quantity has been deleted. In addition, the requirements have been amended to indicate that this disclosure can be made in total, individually, or for groups of living resources, to provide relevant information to the users of the financial statements for accountability and decision-making purposes.
7.3	The proposed Standard allows an entity an exemption from recognising a living resource on initial recognition when the fair value in an active market is not available. Similarly, when an entity can no longer determine a fair value subsequent to initial recognition because market-determined prices or values are not available and alternative estimates of fair value cannot be determined, an entity is allowed to apply the cost method from that date. Past practice has showed that, even though an expert has been used by the entity to determine fair value, and the expert then concluded that a fair value could not be determined for reasons provided for in the relevant Standard of GRAP, the auditors determined a value that the entity was then required to use in measuring the asset. Respondents questioned how this practical challenge can be overcome and/or resolved.	Noted. As this is a practical challenge that needs to be addressed between the auditee and the auditor involved in the audit, no additional guidance can be provided in the Standard of GRAP to address this practical challenge. This comment will be highlighted to the Office of the Accountant–General for its consideration in developing implementation guidance.
7.4	Respondents questioned how the depreciation principles will be applied to animals and plants while they are still growing. This should be clarified in the proposed Standard.	Where the entity concludes that it controls living animals after demonstrating the indicators of control, the Standard indicates that depreciation of the living resources begins when the resource is available for use. Thus, depending on the function and nature of the living resources under its control, the entity should start depreciating

		the living resources when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Prior to that the living resources should not be depreciated. As the Board agreed that the guidance included in the Standard is appropriate, this comment will be highlighted to the Office of the Accountant–General for its consideration in developing implementation guidance on depreciation.
7.5	Respondents noted that, in determining a fair value for a living resource, consideration should be given to, amongst others, the origin of the animal and whether the market is limited or restricted to only those living resources for which a permit is required in order to trade the animals.	Noted. This should be considered in determining the fair value of a living resource that reflects a price at which the living resource could be exchanged between knowledgeable, willing parties in an arm's length transaction. In determining the fair value, the valuer will consider these aspects as part of the judgements and assumptions that are applied in estimating the fair value of the land. The comment will be highlighted to the Office of the Accountant–General for its consideration in developing implementation guidance.
7.6	It was questioned to what extent the costs incurred to transport an animal to its required location, will impact the value at which the living resource will be measured.	Noted. The example of directly attributable costs in the Standard has been amended to include transport or similar costs.