



**ANALYSIS AND RESPONSES TO WRITTEN COMMENT
RECEIVED ON THE**

**PROPOSED STANDARDS OF GRAP ON *INTERESTS
IN OTHER ENTITIES***

(ED 144 TO ED 148)

RESPONSES TO THE WRITTEN COMMENT RECEIVED ON THE PROPOSED STANDARDS OF GRAP ON *INTERESTS IN OTHER ENTITIES* (ED 144 to ED 148)

The Accounting Standards Board (Board) approved the Exposure Drafts of the proposed Standards of GRAP on *Interests in Other Entities* (ED 144 to ED 148) for comment in March 2016. A Notice was also published in the Government Gazette on the 5th of August 2016 (Notice 40188). The comment period closed on 30 November 2016.

The Board received one comment letter from the Western Cape Provincial Treasury. In addition, the Office of the Provincial Accountant-General: Free State Treasury issued a questionnaire to which a number of the entities in the Free State responded.

The results of the formal comment process are summarised in this document, and include the Board's responses to the comment received.

In addition to the comment letters received, the proposed Standards of GRAP were discussed with preparers, auditors and consultants by way of workshops, roundtable discussions or meetings. The summary of comment received during these discussions is included in a separate analysis.

CLASSIFICATION OF WRITTEN COMMENT RECEIVED ON THE PROPOSED STANDARDS OF GRAP ON *INTERESTS IN OTHER ENTITIES* (ED 144 TO ED 148)

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Office of the Provincial Accountant-General: Free State Treasury					
	<ul style="list-style-type: none"> Department of Treasury 			√		
	<ul style="list-style-type: none"> Department of Cooperative Governance and Traditional Affairs (COGTA) 			√		
	<ul style="list-style-type: none"> Department of Public Works and Infrastructure 		√			
	<ul style="list-style-type: none"> Department of Agriculture and Rural Development 		√			
	<ul style="list-style-type: none"> Department of Sport, Arts, Culture and Recreation 		√			
2.	Western Cape Provincial Treasury			√		
	Total	6	3	3		



COMMENTS ON ED 144 TO ED 148 <i>INTERESTS IN OTHER ENTITIES</i>		
No.	Comments	Board's response
	SPECIFIC MATTERS FOR COMMENT	
	<p><u>Specific matter for comment 1</u></p> <p>The proposed Standard of GRAP on <i>Separate Financial Statements</i> (GRAP 34) allows an entity to account for similar investments in controlled entities, joint ventures and associates in its separate financial statements either:</p> <ul style="list-style-type: none"> (a) at cost; (b) in accordance with the Standard of GRAP on <i>Financial Instruments</i>; or (c) using the equity method as described in the Standard of GRAP on <i>Investments in Associates and Joint Ventures</i>. <p>The accounting policy choice in accounting for investments in an entity's separate financial statements should be applied to similar investments, i.e. controlled entities, joint ventures and associates.</p> <p>The Standard of GRAP on <i>Consolidated and Separate Financial Statements</i> (GRAP 6) does not permit the use of the equity method, which was in line with the IASB thinking at the time that GRAP 6 was developed. The equivalent IPSAS 6 did, however, allow the use of the equity method to account for other investments in an entity's separate financial statements.</p> <p>In August 2014, the IASB reinstated the equity method as an option in separate financial statements, following support from stakeholders to permit the use of the equity method. In line with international practice, the Board has therefore agreed to also permit the use of the equity method in separate financial statements.</p> <p>Do you agree with the Board's view to include the equity method as a method to account for investments in an entity's separate financial statements? Please explain your response.</p>	



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1.1	Free State Department of Treasury	
1.1.1	<p>Yes.</p> <p>The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor’s share of the investee’s net assets. The investor’s surplus or deficit includes its share of the investee’s surplus or deficit and the investor’s net assets includes its share of changes in the investee’s net assets that have not been recognised in the investee’s surplus or deficit.</p> <p>An investment entity is an entity that:</p> <ul style="list-style-type: none"> (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis. 	<p>Noted.</p> <p>As respondents supported the inclusion of the equity method to account for investments in an entity’s separate financial statements, the Board agreed that the equity method should be retained.</p>
1.2	Free State COGTA	
1.2.1	<p>To be consistent with IASB.</p>	<p>Noted.</p> <p>As respondents supported the inclusion of the equity method to account for investments in an entity’s separate financial statements, the Board agreed that the equity method should be retained.</p>



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1.3	Free State Department of Public Works and Infrastructure	
1.3.1	To allow entities to have a choice in deciding which method is best suitable to the entity in disclosing and accounting for its Department. Separate financial statements will therefore have to be prepared where the equity method is selected.	<p>Noted.</p> <p>As respondents supported the inclusion of the equity method to account for investments in an entity's separate financial statements, the Board agreed that the equity method should be retained.</p>
1.4	Free State Department of Sport, Arts, Culture and Recreation	
1.4.1	<p>Yes.</p> <p>Will provide a fuller picture with the equity method.</p>	<p>Noted.</p> <p>As respondents supported the inclusion of the equity method to account for investments in an entity's separate financial statements, the Board agreed that the equity method should be retained.</p>
1.5	Western Cape Provincial Treasury	
1.5.1	Yes we agree as the equity method is a requirement in corporate law. It is a well-established and easily understood method of accounting and it also provides useful and relevant information to the users of financial statements.	<p>Noted.</p> <p>As respondents supported the inclusion of the equity method to account for investments in an entity's separate financial statements, the Board agreed that the equity method should be retained.</p>



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	<p><u>Specific matter for comment 2</u></p> <p>The proposed Standard of GRAP on <i>Disclosure of Interests in Other Entities</i> (GRAP 38) brought together all the disclosure requirements on interests in other entities. Do you find the inclusion of the disclosure requirements proposed in GRAP 38 useful in meeting the user’s information needs, or, in your view, could some of the disclosure requirements be eliminated? Please explain your response.</p>	
2.1	Free State Department of Treasury	
2.1.1	<p>No.</p> <p>If some of the information is deleted clear guidance to indicate what is deleted should be given.</p> <p>This can also create a situation that some information that is incomplete will only be deleted.</p>	<p>Noted.</p> <p>The Board agreed that, other than combining the requirement to disclose the portion of ownership interests held by non-controlling interests with the disclosure of voting rights held by non-controlling interests if different, the Standard should maintain alignment with the IPSASB disclosures. Therefore, none of the disclosures were deleted.</p> <p>Noted. In applying the Standards of GRAP, an entity is required to apply all the disclosures in an applicable Standard of GRAP when these are applicable and material. An entity is not allowed to depart from a requirement of a Standard of GRAP just because information is incomplete. As a result, no amendment was agreed by the Board.</p>



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2.2	Free State Department of Public Works and Infrastructure	
2.2.1	<p>No.</p> <p>The disclosure are too many not all the information to be disclosed is necessary to the user of the financial statements e.g. .46 disclosure of current intentions to provide financials or other support to a structured entity, what if that “intention” does not materialize.</p>	<p>Noted.</p> <p>This disclosure requirement will provide users of the financial statements with information on the entity’s exposure to risks, and the nature of the risks that result from its interest in a structured entity. The term “intention” in the paragraph refers to the terms and conditions as outlined in the binding arrangement.</p> <p>The Board agreed that, other than combining the requirement to disclose the portion of ownership interests held by non-controlling interests with the disclosure of voting rights held by non-controlling interests if different, the Standard should maintain alignment with the IPSASB disclosures. Therefore, none of the disclosures were deleted.</p>
2.3	Free State Department of Sport, Arts, Culture and Recreation	
2.3.1	Fuller picture.	Noted. No further action required.
2.4	Western Cape Provincial Treasury	
2.4.1	<p>Encompassing all the AFS disclosure requirements under one single standard will allow for ease of access and avoid referring to too many different standards.</p> <p>A comprehensive disclosure list, although onerous, is more prudent and would meet the user’s</p>	Noted. No further action required.



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	information needs as users are looking for varied information to base their entity's assessments and evaluations on.	
<p><u>Specific Matter for Comment 3</u></p> <p>The proposed Standards of GRAP on <i>Consolidated Financial Statements</i> (GRAP 35) and <i>Joint Arrangements</i> (GRAP 37) include detailed examples to illustrate the application of the principles proposed in the Standards. In line with past practice, these illustrative examples will be removed from the Standards of GRAP when the Office of the Accountant-General develops the implementation guidance for the specific Standard of GRAP.</p> <p>In your view, do you agree that the proposed illustrative examples included in the proposed GRAP 35 and GRAP 37 reflect South African public sector circumstances? Should any of these examples be eliminated, or should additional examples be included. Please explain your response.</p>		
3.1	Free State Department of Treasury	
3.1.1	If some of the information is deleted clear guidance to indicate what is deleted should be given. This can also create a situation that some information that is incomplete will only be deleted.	<p>Noted.</p> <p>The illustrative examples will be removed from the Standards of GRAP when the implementation guidance is developed by the Office of the Accountant-General.</p> <p>Also refer to the response to comment 2.1.1 above.</p>
3.2	Free State Department of Agriculture and Rural Development	
3.2.1	For now it is fine. As soon as new developments, it will be communicated.	Noted. No further action required.



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3.3	Free State Department of Public Works and Infrastructure	
3.3.1	No comment. Joint arrangements not applicable to Government.	Noted. As the Standard of GRAP on <i>Interests in Joint Ventures</i> (GRAP 8) is currently applied by a number of entities, the Board approved GRAP 37 to replace GRAP 8.
3.4	Free State Department of Sport, Arts, Culture and Recreation	
3.4.1	Illustrative examples can be added by the OAG as and when more dynamics emerge from year to year, which lead to different interpretations.	Noted. The comment will be submitted to the OAG for its consideration.
3.5	Western Cape Provincial Treasury	
3.5.1	The answer provided is from a local government view point only. Yes, however from the illustrative examples presented there are limited instances when a municipality controls another entity and yes this limitation is due to legislative composition of a municipality; it is governed by an elected council.	Noted. No further action required.
	<p><u>Specific Matter for Comment 4</u></p> <p>Are there any regulatory or other issues that exist in the South African environment that may affect the implementation of the proposed Standards of GRAP?</p> <p>If yes, please provide details of these regulatory or other issues that should be considered in finalising the proposed Standards of GRAP.</p>	



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4.1	Free State Department of Treasury	
4.1.1	No. Not applicable.	Noted. No further action required.
4.2	Western Cape Provincial Treasury	
4.2.1	There are no regulatory issues identified to date. When an entity is required to report in terms of the Standards of GRAP, it will need to do so in its entirety, for all transactions and events. The GRAP reporting framework does allow for the possibility of departure from the Standards of GRAP, if that departure leads to fairer presentation. Detailed disclosure in the financial statements are required in those instances.	Noted. No further action required. The Secretariat has developed a Frequent Asked Question (FAQ) on the implications on compliance with the Standards of GRAP when an entity departs from a requirement in the Standard(s). This FAQ provides guidance to preparers on the impact of a departure from the Standards of GRAP.
	<p><u>Specific Matter for Comment 5</u></p> <p>In your view, should the National Treasury consider the development of any other implementation guidance, in addition to the GRAP Implementation Guideline that will be developed? Please explain your response.</p>	
5.1	Free State Department of Treasury	
5.1.1	No. I am of the view that if the Grap Implementation Guideline is updated with the latest changes it should be sufficient. Too many guidelines can create confusion.	Noted. The comment will be submitted to the OAG for its consideration.



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5.2	Free State Department of Sport, Arts, Culture and Recreation	
5.2.1	GRAP Guidelines is not always an exhaustive document and should be supplemented by NT's additional guidelines.	Noted. The comment will be submitted to the OAG for its consideration.
5.3	Western Cape Provincial Treasury	
5.3.1	Yes, the National Treasury implementation guidance is useful as an additional source of reference to preparers.	Noted. No further action required.
	<p><u>Specific Matter for Comment 6</u></p> <p>In your view, overall, does the application of the proposed Standards of GRAP result in financial statements that would be useful to users? Please explain your response.</p>	
6.1	Free State Department of Treasury	
6.1.1	Financial statements can only be so useful as the information that it contains and the correctness of it.	Noted. No further action required
6.2	Free State Department of Sport, Arts, Culture and Recreation	
6.2.1	Provide a more comprehensive picture.	Noted. No further action required.
6.3	Western Cape Provincial Treasury	



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6.3.1	Yes it does. Clearly defined, detailed Standards of GRAP should lead to a fairly presented set of financial statements that is useful to users.	Noted. No further action required.
<p><u>Specific Matter for Comment 7</u></p> <p>In your view, what are the costs and benefits of the proposals relative to the current accounting that are applied by entities in assessing their interests in other entities. In relation to quantitative financial costs, the ASB would be interested to understand the nature and estimated amounts of any expected incremental costs, or cost savings, of the proposals relative to the existing accounting.</p>		
7.1	Free State Department of Treasury	
7.1.1	Is not familiar with this.	Noted. No further action required.
7.2	Free State Department of Sport, Arts, Culture and Recreation	
7.2.1	Benefit remain the better understanding while the cost involve higher skills which come at a high price.	Noted. No further action required.
7.3	Western Cape Provincial Treasury	
7.3.1	From a local government perspective, we are unable to comment on this point.	Noted. No further action required.



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GENERAL MATTERS FOR COMMENT		
8.1	Western Cape Provincial Treasury	
8.1.1	<p>Exposure Draft 144 and Exposure Draft 148</p> <p>There is no comment on these Exposure Drafts.</p>	Noted. No further action required.
8.1.2	<p>Exposure Draft 145</p> <p>Paragraph 11</p> <p>The third sentence is unclear and needs to be clarified.</p> <p>What is meant with “aspects”?</p> <p>At paragraph 11 it reads as follows – “<u>Benefits</u> are the advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity’s involvement with another entity can have positive or negative aspects.”</p>	<p>Noted.</p> <p>“Aspects” refer to financial and non-financial benefits. Examples of financial and non-financial benefits are provided in the Standard of GRAP on <i>Consolidated Financial Statements</i> (GRAP 35) as an illustration, and the Board agreed that these illustrations are sufficient. As a result, no amendment to the term “aspects” was made.</p>
8.1.3	<p>Paragraph 11 and 12</p> <p>The description of “binding arrangement” is open for interpretation as it currently reads and needs to be expanded in par. 12.</p> <p>If not in writing, how will the enforceable rights and obligations be proved. Maybe the indications “but not always, in writing” be removed. As with constructive obligations, having its own challenges in cases where the events, situations or operational matters may arise which could lead to these obligations over the short term, having unintended long term implications.</p> <p>At paragraph 11 it reads as follows – “<u>Binding arrangement</u> is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a</p>	<p>Noted.</p> <p>A binding arrangement may not always be in writing, for example it could be in the form of a recording of discussions that establishes rights and obligations.</p> <p>In addition, the Board’s rationale for developing a standardised definition for “binding arrangements” in all the Standards of GRAP is explained in the Basis for Conclusions (see paragraphs BC4 to</p>



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	<p>contract. It includes rights from contracts or other legal rights.”</p> <p>The entire paragraph 12 is applicable.</p>	<p>BC11) in GRAP 35.</p> <p>As a result, the Board agreed not to amend the definition of a binding arrangement.</p>
8.1.4	<p>Paragraph 28</p> <p>Over time needs to be linked to the period of the contractual agreement.</p> <p>A reporting entity may find it problematic to proof “financial and non-financial benefits over time” should the entity’s involvement with another entity have a negative impact on its performance during a reporting period(s).</p> <p>At paragraph 28 it reads as follows – “Entities become involved with other entities with the expectation of positive financial or nonfinancial benefits over time. However, in a particular reporting period, the actual impact of an entity’s involvement with the entity being assessed for control can be only positive, only negative or a mix of both positive and negative.”</p>	<p>Noted.</p> <p>The second sentence in this paragraph explains that an entity may become involved with other entities with the expectation to obtain benefits during more than one reporting period. “Over time” is linked to the reporting period and not to a contractual agreement.</p> <p>The comment will be submitted to the OAG for consideration to provide further guidance in developing the GRAP Implementation Guideline.</p>
8.1.5	<p>Exposure Draft 146</p> <p>Paragraph 6 and 7</p> <p>As with comments in ED 145.</p> <p>The description of “binding arrangement” is open for interpretation as it currently reads and needs to be expanded in par. 6.</p> <p>If not in writing, how will the enforceable rights and obligations be proved. Maybe the indications “but not always, in writing” be removed. As with constructive obligations, having its own challenges in cases where the events, situations or operational matters may arise which could lead to these obligations over the short term, having unintended long term implications.</p> <p>At paragraph 6 it reads as follows – “<u>Binding arrangement</u> is an arrangement that confers</p>	<p>Noted.</p> <p>Refer to the response in comment 8.1.3.</p>



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	<p>enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.”</p> <p>The entire paragraph 7 is applicable.</p>	
<p>8.1.6</p>	<p>Exposure Draft 147 Paragraph 5,6 and 8 As with comments in ED 145.</p> <p>The description of “binding arrangement” is open for interpretation as it currently reads and needs to be expanded in par. 5.</p> <p>If not in writing, how will the enforceable rights and obligations be proved. Maybe the indications “but not always, in writing” be removed. As with constructive obligations, having its own challenges in cases where the events, situations or operational matters may arise which could lead to these obligations over the short term, having unintended long term implications. This may become problematic when evaluating the characteristics of a joint arrangement “the parties are bound by a binding arrangement” (par. 8)</p> <p>At paragraph 5 it reads as follows – “Binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.”</p> <p>The entire paragraph 6 is applicable.</p> <p>At paragraph 8 it reads as follows – “The parties are bound by a binding arrangement.”</p>	<p>Noted.</p> <p>Refer to the response in comment 8.1.3.</p>