



**ANALYSIS AND RESPONSES TO VERBAL COMMENT
RECEIVED ON**

**PROPOSED INTERPRETATION OF THE STANDARDS
OF GRAP ON *RECOGNITION AND DERECOGNITION
OF LAND*
(ED 151)**



RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED INTERPRETATION OF THE STANDARDS OF GRAP ON *RECOGNITION AND DERECOGNITION OF LAND* (ED 151)

The Accounting Standards Board (Board) approved the exposure of the proposed Interpretation of the Standards of GRAP on *Recognition and Derecognition of Land* (ED 151) in September 2016 for comment. ED 151 was a re-exposure of the proposed Interpretation of the Standards of GRAP on *Recognition and Derecognition of Land* (ED 139). A Notice was published in the Government Gazette on the 14th of October 2016 (Notice 40346). The comment period closed on 15 December 2016.

The proposed IGRAP 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, the proposed IGRAP was also presented during a SAICA webcast.

The results from the workshops, roundtable discussions or other meetings are included in this document into general and specific matters, and include the project group's proposed responses to the comment received.



**CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED IGRAP ON
RECOGNITION AND DERECOGNITION OF LAND (ED 151)**

No.	Name/Organisation	Total	Preparers	Users	Auditors	Other interested parties
1.	Roundtable discussion with various stakeholders		√			
2.	GIAMA Immovable Asset Technical Committee (GITC)		√			
3.	Public Entity CFO Forum		√			
4.	Non-delegated municipal CFO Forum		√			
5.	Western Cape Accounting Working Committee		√			
	TOTAL	5	5	0	0	0



ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED IGRAP ON RECOGNITION AND DERECOGNITION OF LAND

COMMENTS ON ED 151 RECOGNITION AND DERECOGNITION OF LAND		
No.	Comments	Project group's proposed response
	SPECIFIC MATTERS FOR COMMENT	
1.	Specific Matter for Comment 1	
	Do you agree with the proposal that the indicator of control on the existence of an enforceable right should be combined with the indicator of control on the right to direct access, and to restrict or deny access of others to the land, along with the additional clarification and explanation included in paragraphs .14 to .34? If not, please explain your response.	
1.1	Roundtable discussion	
	Participants supported the proposal that the indicators of control on the existence of an enforceable right should be combined with the indicator of control on the right to direct access, and to restrict or deny access of others to the land, along with the additional clarification, should be combined.	Noted. No further action required.
1.2	GIAMA Immovable Asset Technical Committee (GITC)	
	Participants supported the proposal that the indicators of control on the existence of an enforceable right should be combined with the indicator of control on the right to direct access, and to restrict or deny access of others to the land, along with the additional clarification, should be combined.	Noted. No further action required.
1.3	Western Cape Accounting Working Committee	
	Participants supported the proposal that the indicators of control on the existence of an	Noted. No further action required.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED
IGRAP ON RECOGNITION AND DERECOGNITION OF LAND**

	enforceable right should be combined with the indicator of control on the right to direct access, and to restrict or deny access of others to the land, along with the additional clarification, should be combined.	
2.	Specific Matter for Comment 2	
	Do you agree with the proposed effective date of 1 April 2019? If not, please explain your response.	
2.1	Roundtable discussion	
	Participants supported the effective date of 1 April 2019 and the proposed transitional provisions.	Noted. No further action required.
2.2	GIAMA Immovable Asset Technical Committee (GITC)	
	Some stakeholders were of the view that the effective date should be extended as entities may need more time to consider the impact of the proposed IGRAP to ensure that they apply with the principles.	Noted. As the majority of the respondents supported the implementation date of 1 April 2019, the project group proposes no alternative date.
2.3	Western Cape Accounting Working Committee	
	Participants supported the effective date of 1 April 2019 and the proposed transitional provisions.	Noted. No further action required.
2.4	Non-delegated municipal CFO Forum and Public Entity CFO Forum	
	No specific comment on the effective date was noted.	Noted. No further action required.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED
IGRAP ON *RECOGNITION AND DERECOGNITION OF LAND***

No.	Comments	Project group's proposed response
GENERAL COMMENT		
2.5	GIAMA Immovable Asset Technical Committee (GITC)	
	<p>The application of the proposed IGRAP only to land was questioned. Respondents noted that when a valuation is obtained for land, the valuation value includes a combined value for the land and the building constructed on the land. The valuation value is therefore used to reflect the asset, consisting of the land and the building, in the entity's asset register and financial statements.</p> <p>Participants therefore questioned the scope exclusion of buildings and other structures from the proposed IGRAP.</p>	<p>Noted. The IGRAP provides guidance on when an entity should recognise or derecognise land as an asset in its statement of financial position.</p> <p>The entities in question currently apply the Modified Cash Standard (MCS) as prescribed by the Office of the Accountant-General. In terms of the MCS requirements, an entity is also required to recognise land and buildings as separate assets.</p> <p>The IGRAP explains that land and buildings should be accounted for separately as the future economic benefits or the service potential embodied in the asset, differ. As a result, the project group does not propose any amendment to the scope of the proposed IGRAP.</p>
2.6	Western Cape Accounting Working Committee	
	<p>We agree with the proposed amendments to ED 139.</p> <p>We also support the recommendation that no amendment should be made to the requirement that a binding arrangement needs to exist between the parties.</p>	<p>Noted. No further action required.</p>



ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED IGRAP ON RECOGNITION AND DERECOGNITION OF LAND

2.7	Roundtable discussion	
2.7.1	<p><i>Assessment of control</i></p> <p>Respondents questioned the reference to “indicators of control” and proposed that, as there are only two criteria, “indicators” should be replaced with a more appropriate term.</p> <p>In addition, as some entities can be the legal owner of the land and have the right to direct the access to the land, and restrict or deny access of others to the land, it was proposed that the indicators should be amended to “and/or”.</p>	<p>Noted. The reference has been amended to “criteria”.</p> <p>Agreed. The paragraph has been amended as proposed.</p>
2.7.2	<p>For an entity to be able to apply this proposed IGRAP, a binding arrangement needs to exist between the parties. If no binding arrangement exists, entities should not even assess the indicators of control.</p> <p>As a result, some stakeholders proposed that the definition and explanation of a binding arrangement should be included before the paragraphs that explain the indicators of control.</p>	<p>Noted.</p> <p>Unlike the Standard of GRAP on <i>Accounting by Principals and Agents</i>, an entity can consider the principles in the IGRAP in the absence of a binding arrangement.</p> <p>The explanation of a binding arrangement has been relocated before the discussion on the criteria of control. In addition, paragraph .12A has been amended to explain that control is evidenced by the rights and obligations arising from binding arrangements, and an entity should assess whether it controls land using the criteria in the IGRAP.</p>
2.7.3	<p>Some stakeholders were of the view that when an entity is the custodian of land, no binding arrangement between parties will exist as the custodian will have a specific mandate as required in legislation. The interaction between the first indicator of control, and part (b) in the</p>	<p>Noted. The definition of a “binding arrangement” includes rights evidenced through legislation, supporting regulations or similar means including, but not limited to laws, regulation, policies, decisions</p>



ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED IGRAP ON RECOGNITION AND DERECOGNITION OF LAND

	<p>explanation of a binding arrangement was therefore questioned.</p>	<p>concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders. Therefore, when an entity is granted custodial responsibilities through legislation, the definition of a binding arrangement is met. A legal arrangement or legal requirement therefore meets the definition of a binding arrangement.</p> <p>As a result, no amendment is proposed on binding arrangements.</p>
2.7.4	<p>Paragraph .16 makes reference to “a binding arrangement entered into between parties”. When an entity is appointed as custodian in terms of legislation or similar means, no arrangement is entered into between the parties, as the responsibilities of the custodian are prescribed in specific legislation or similar means.</p> <p>It was therefore proposed that the reference to “entered into” should be deleted.</p>	<p>Noted. The paragraph has been amended to clarify that when a binding arrangement exists, the entity needs to assess whether it controls the land.</p>
2.7.5	<p><i>Substantive and protective rights</i></p> <p>To simplify and enhance the flow of the IGRAP, stakeholders proposed that the guidance on substantive and protective rights should be included as part of the discussion on the right to direct access to, and restrict or deny access of others to the land.</p>	<p>Noted. The guidance on substantive and protective rights has been relocated as proposed.</p>
2.7.6	<p>Some stakeholders proposed that the first sentence, in the second paragraph of this section, should be included as the first sentence in paragraph one to emphasise the relevance of a substantive right in relation to control of land.</p>	<p>Noted. The first two paragraphs in this section have been reworded for clarification.</p>



ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED IGRAP ON RECOGNITION AND DERECOGNITION OF LAND

2.7.7	<p><i>Legal ownership</i></p> <p>The term “usually” in the first paragraph of this section was questioned. It was noted that legislation or “similar means” include all the other ways in which legal ownership can be transferred. As a result, it was proposed that “usually” should be deleted.</p>	<p>Noted. The amendment has been made to the paragraph as proposed.</p>
2.7.8	<p>Some stakeholders noted that the change in ownership that is recorded by way of an endorsement on the existing title deed, is merely an example of how legal ownership can be transferred. It was therefore proposed that the third sentence in the first paragraph in this section should be included as an example.</p>	<p>Noted. The amendment has been made to the paragraph as proposed.</p>
2.7.9	<p><i>Application by a custodian</i></p> <p>It was proposed that the principle that explains the application by a custodian should be included after the principles that explain legal ownership as the paragraph explains control of land in relation to the legal owner.</p>	<p>Noted.</p> <p>The paragraph notes that custodians are granted a right to direct access to, and restrict or deny access of others to land in terms of legislation or similar means. The project group is therefore of the view that the discussion on the application of the custodian is appropriately included after the discussion of the second indicator of control. As a result, no amendment is proposed.</p>
2.7.10	<p><i>Right to direct access to, and to restrict or deny access of others</i></p> <p>The first paragraph on the general application notes that, based on substance over form, land is controlled by the entity that demonstrates that it has a right to direct access to, and restrict or deny access of others. The reference to “substance over form” was questioned. Participants were of the view that the reason why the principle should be applied, should be explained in the Basis for Conclusions and not in the IGRAP itself.</p>	<p>Noted. As the objective on an Interpretation of the Standards of GRAP is to set out the consensus on the appropriate treatment of an accounting issue, the project group is of the view that it is appropriate to refer to the principle of “substance over form” in the pronouncement itself. As a result, no amendment is</p>



ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED IGRAP ON RECOGNITION AND DERECOGNITION OF LAND

		proposed to this paragraph.
2.7.11	Some stakeholders questioned why reference is made to public goods and services that all entities have access to and benefit from in the second paragraph on the general application. It was proposed that this should be deleted.	Noted. The reference to “public goods” has been amended to “resources”.
2.7.12	Stakeholders proposed that the indicators that should be considered to demonstrate the second criterion should be “and/or” as more than one indicator can be applicable. It was also proposed that term “directly”, in the first indicator, should be amended to “direct the” so that the explanation of the indicator in the following is clearer.	Noted. The amendments have been made as proposed.
2.7.13	Respondents proposed that the reference to “indefinite period” should be amended to a more appropriate term.	Noted. The reference to “indefinite period of time” has been amended to “unlimited period of time” as used in GRAP 17 <i>Property, Plant and Equipment</i> .
2.7.14	<p>It was questioned how the requirement on the restriction to dispose of land, as explained in the second last paragraph in this section, applies to housing arrangements where the beneficiary intends to sell its property before eight years from acquisition, as the Housing Act requires that the property will automatically revert to the provincial housing department.</p> <p>It was also questioned whether this legislative restriction is explained in the Housing Guideline.</p>	<p>Noted. The paragraph explains that the entity needs to assess whether this legislative requirement is a protective or substantive right. Based on that assessment, the entity concludes whether it controls the land. The IGRAP also explains that where a binding arrangement imposes conditions or restrictions on an acquirer of land, the entity should re-assesses control at the time of the breach on the condition or restriction.</p> <p>The matter has not been addressed in the Housing Guideline, as it is applicable to municipalities that participate in the national housing programme. As legislation requires that the relevant provincial housing</p>



ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED IGRAP ON RECOGNITION AND DERECOGNITION OF LAND

		<p>department takes ownership of the land, control of the land should be assessed by the department rather than the municipality.</p> <p>The comment will be submitted to the OAG for its consideration in updating the relevant guidance on housing arrangements.</p>
2.7.15	<p>It was proposed that a reference to “custodian” should be included in the second last paragraph in this section, as the custodian can also impose a restriction on the disposal of land.</p>	<p>Noted. Custodial responsibilities are included in the concept of “legislation or similar means”. As a result, the project group does not propose any amendment to the paragraph.</p>
2.7.16	<p>Stakeholders proposed that the first and second sentence in the last paragraph of this section should be switched.</p>	<p>Noted. The paragraph has been amended as proposed.</p>
2.7.17	<p><i>Appendix A</i></p> <p>It was questioned whether the conclusion in example 3 should refer to substance over form, rather than conclude that the custodian cannot transfer land, and its associated rights to another entity, unless that entity is also a custodian.</p>	<p>Noted. The Government Immovable Asset management Act, Act No 19 of 2007, requires that the custodian of land cannot transfer land to another entity unless that entity is also a custodian appointed in terms of legislation. The conclusion in example 3 is therefore based on this legislative requirement. As a result, no amendment is proposed by the project group.</p>
2.7.18	<p><i>Basis for Conclusion</i></p> <p>It was questioned how the explanations in BC10 and BC12 are addressed in the Guideline.</p>	<p>Noted. The IGRAP explains that where a binding arrangement imposes conditions or restrictions on an acquirer of land, the entity should re-assesses control</p>



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED
IGRAP ON *RECOGNITION AND DERECOGNITION OF LAND***

		<p>at the time of the breach on the condition or restriction.</p> <p>This is also addressed in the section on substantive and protective rights.</p>
2.7.19	<p>It was proposed that the last sentence in BC24 should be deleted as it may be seen that the Board is setting requirement other than accounting principles.</p>	<p>Noted. The sentence has been deleted as proposed.</p>