

FEEDBACK STATEMENT – ED 143 PROPOSED STANDARD OF GRAP ON *LIVING AND NON-LIVING RESOURCES*

<p>This Feedback Statement outlines feedback received on the Standard of GRAP on <i>Living and Non-living Resources</i></p>	<p>Overview</p>	<p>This Feedback Statement outlines decisions taken by the Board prior to approving the Standard of GRAP on <i>Living and Non-living Resources</i> (GRAP 110) and outlines the key principles in GRAP 110.</p>
	<p>Consultation process</p>	<p>The ASB undertook a public consultation, which included users of the financial statements, preparers, auditors, and other interested parties.</p>
	<p>Supporting material</p>	<p>The Board’s analysis of both the written and verbal comments received on ED 143 along with its responses thereto.</p> <p>The final Standard of GRAP on <i>Living and Non-living Resources</i>.</p> <p>These materials can be accessed on the ASB’s website.</p>
	<p>Next steps</p>	<p>The ASB has developed proposed transitional provisions to be applied on the initial adoption of the Standard of GRAP on <i>Living and Non-living Resources</i> (refer to ED 154 <i>Proposed Transitional Provisions for the Initial Adoption of the Standard of GRAP on Living and Non-living Resources</i>).</p> <p>ED 154 proposes an effective date for GRAP 110 for reporting periods commencing on or after 1 April 2019. If supported by stakeholders, this date will be recommended to the Minister of Finance.</p>



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What we heard	
<p>General support expressed for the principles proposed</p>	<p>Stakeholders generally supported the principles proposed in ED 143 and were of the view that the principles will result in information in the financial statements that is relevant to users. The key proposals that respondents supported were:</p> <ul style="list-style-type: none"> • non-living resources, other than land, should not be recognised as assets in the entity’s financial statements. The entity will, however, be required to provide certain disclosures about these non-living resources; and • an entity can select either the cost or the revaluation model to subsequently measure living resources that it controls. <p>Respondents did not identify any regulatory or other issues that exist in the South African environment that may affect the implementation of ED 143.</p>
<p>Indicators to assess control of living resources</p>	<p>ED 143 outlined three indicators that an entity can apply to assess control of a living resource: (a) the intervention by an entity in the management of the physical condition of the living resource; (b) the ability to restrict the movement of the living resource; and (c) the ability to direct the use of the living resource.</p> <p>Respondents requested clarification in two areas in relation to these indicators of control.</p> <p>The first comment from respondents noted that not all the indicators are relevant to both plants and animals in all instances. The Board amended the guidance to explain that not all indicators of control are applicable to plants and animals in all circumstances.</p> <p>In the second comment, respondents questioned if, or when, entities will be required to re-assess control of a living resource. The Board agreed to add a paragraph that requires an entity to re-asses control when the purpose for which the living resource is held, changes. Explanatory guidance to the indicators of control has been added to explain:</p> <ul style="list-style-type: none"> • how ongoing maintenance undertaken by an entity impacts its assessment of control; and • to clarify the difference between the assessment of control where an entity is able to restrict or regulate the movement of the living resource, versus the entity’s ability to restrict access or movement to a specified area.

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What we heard

Request for further clarification and guidance on certain principles

Elements of cost

Respondents requested guidance on what expenses will comprise “costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in the manner intended by management”.

The Board agreed to include additional guidance to explain that day-to-day operating costs comprise those costs incurred by an entity to manage the qualitative and quantitative changes of the biological transformation of the resource. Depending on the entity’s reason for holding the living resource, the entity will need to assess whether costs incurred comprise (a) day-to-day operating costs, or (b) enhance the future economic benefits or service potential of the resource.

Grouping of living resources of similar nature or function

ED 143 required that, in selecting a subsequent measurement model, the accounting policy should be applied to an entire group of living resources. If the entity elects to apply the revaluation model, the entire group of living resources to which that resource belong, shall be revalued simultaneously.

Some respondents questioned whether similar living resources can be separated between mature and immature based on the different stages of the resources’ life cycle. Additional guidance has been included to clarify that, within a group of living resources, an entity can make such a distinction, where appropriate. The same type of living resource can therefore be grouped into mature and immature depending on the resource’s function in the entity’s operations.

Guidance on transfers to and from living resources

Following comment received from stakeholders, the Board agreed to include guidance on accounting for transfers to and from living resources and inventories, property, plant and equipment and agriculture. The guidance also clarifies that transfers from a living resource shall be made when the definition of a living resource is no longer met, and/or when the living resource is no longer within the scope of the Standard.

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What we heard

Proposed disclosure requirements

Based on comment received, the Board agreed to the following amendments to the disclosure requirements:

(a) Inclusion of a cross reference in the financial statements to information in other documents that explain the entity's custodial responsibilities over living and non-living resources

Concerns were noted about the requirement that allows an entity to include a cross reference in its financial statements to other documents where the entity explains the nature of its custodial responsibilities. Respondents noted that, if the requirement is retained, it may be difficult to identify the information that is subject to an audit.

The Board agreed that this requirement should be retained as information on the nature of the entity's custodial responsibilities will be duplicated if presented in the financial statements and in other reports. Including disclosure in the notes of all the legislative requirements in the financial statements could also be detailed and/or lengthy.

The Board noted that a cross reference to information in other reports can only be included in an entity's financial statements if the other document is issued in conjunction with the financial statements, e.g. an annual report.

(b) Encouraged disclosure on living resources that are borrowed or on loan to others

Some respondents proposed that the encouraged disclosure of living resources borrowed from, or on loan to another entity, should be deleted following the Board's decision during its Post-Implementation Review project that encouraged disclosures should be minimised.

The Board agreed that the disclosure requirement should be retained, but that it should be mandatory as the information will provide relevant information to the users of the financial statements.

(c) Disclosure of judgements and assumptions about the point of extraction of non-living resources

Respondents proposed that disclosures should be required to explain the key judgements made, and assumptions applied by an entity, to determine the point at which non-living resources are extracted. The Board agreed with the recommendation and made a consequential amendment to GRAP 12 *Inventories* to require the disclosure of key judgements and assumptions to determine the extraction point.

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Proposed disclosure requirements	<p>(d) <i>Disclosure of quantitative information of living and non-living resources for which the entity is responsible</i></p> <p>A number of respondents questioned the disclosure of the quantity of living and non-living resources for which the entity is responsible. Respondents proposed that entities should only be required to provide disclosures on the nature and type of resources for which the entity is responsible in its financial statements, as information may not always be available and may not be relevant to users.</p> <p>The Board agreed with the recommendation, and deleted the disclosure requirement in the final pronouncement.</p>
Additional amendments to the Improvements to the Standards of GRAP (2016)	<p>The Board included additional consequential amendments to the <i>Improvements to the Standards of GRAP (2016)</i> for GRAP 110. These amendments will become part of GRAP 110 on 1 April 2018. These additional consequential amendments relate to:</p> <ul style="list-style-type: none"> (a) Measuring the cost of assets acquired in exchange for other assets. (b) Treatment of transaction costs for assets acquired in non-exchange transactions. (c) Use of revenue based depreciation methods. (d) Restatement of the carrying amount of assets when applying the revaluation model. (e) Treatment of bearer plants within the scope of GRAP 17 <i>Property, Plant and Equipment</i>. This change in scope means that bearer plants can be measured using the cost model, whereas in GRAP 27 <i>Agriculture</i>, measurement at fair value less costs to sell is mandatory.
Consequential amendment included in Directive 11	<p>The Board included a consequential amendment in Directive 11 <i>Changes in Measurement Bases Following the Initial Adoption of the Standards of GRAP</i> to permit an entity to change its measurement bases following the initial adoption of GRAP 110.</p>

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Summary of key principles

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Living resources

- GRAP 110 prescribes the recognition, measurement, presentation and disclosure requirements for living resources. It also prescribes the disclosure requirements for non-living resources.
- Living resources are living organisms that undergo biological transformation that are used for:
 - the delivery or provision of goods and services;
 - research;
 - conservation;
 - recreation;
 - education or training; and/or
 - rehabilitation or breeding purposes.
- Biological assets used in agricultural activities and agricultural produce at the point of harvest meet the definition of a living resource. As the entity intends to sell, distribute, or convert the biological assets into agricultural produce or additional biological assets for sale or distribution at no or for a nominal charge, GRAP 27, rather than GRAP 110, is applied to account for these resources.
- Living resources that are stored and/or preserved for future use, or living resources that the entity intends to sell, use, or distribute in the ordinary course of its operations, are excluded from the scope of GRAP 110. An entity applies the applicable Standard of GRAP to account for these resources.

Non-living resources

- Non-living resources comprise resources, other than living resources that occur naturally and have not been extracted, i.e. water and minerals, oils and gas and other non-regenerative resources. At the point of extraction, non-living resources no longer meet the definition of a non-living resource. An entity applies judgement in determining the point of extraction.

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Non-living resources

- Land meets the definition of a non-living resource and is accounted for in terms of the applicable Standard of GRAP, i.e. GRAP 12, GRAP 16 *Investment Property*, GRAP 17 or GRAP 103 *Heritage Assets*.

Recognition of a living resource

- A living resource is recognised as an asset if, and only if (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and (b) the cost or fair value of the asset can be measured reliably.
- In assessing whether an entity controls the right or access to future economic benefits or service potential of a living resource, the following indicators are applied, either individually or in combination:
 - The intervention by an entity in the management of the physical condition of the living resource.
 - The ability to restrict the movement of the living resource.
 - The ability to direct the use of the living resource.

Measurement of living resources at recognition

- A living resource that qualifies for recognition is measured at its cost, or, if the living resource is acquired through a non-exchange transaction, at its fair value as at the date of acquisition.
- The elements of cost of a living resource comprise (a) its purchase price, including import duties and non-refundable purchase taxes; and (b) any costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in the manner intended by management.
- Day-to-day costs are included in the carrying amount of the living resources. Subsequent costs can only be recognised in the carrying amount of the living resource if the recognition criteria are met.

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Measurement of living resources at recognition

- The principles in GRAP 31 *Intangible Assets* are applied to assess whether costs incurred for research activities should be recognised as research or development costs. The living resource should, however, still be accounted for in terms of GRAP 110.

Measurement of living resources after recognition

- When an entity intends to hold a living resource for less than twelve months from the reporting date, the principles in GRAP 12 should be applied to account for the living resource.
- When an entity intends to hold a living resource for more than twelve months from the reporting date, it can apply either the cost or the revaluation model to subsequently measure the living resource. Both the cost and the revaluation model require an entity to depreciate living resources and assess them for impairment.

Applying the revaluation model as a subsequent measure

- If an entity elects to apply the revaluation model, the fair value of the living resource is usually the market value in an active and liquid market, determined by appraisal. Where no evidence is available to determine the market value, a valuation technique may be used to determine the fair value.
- The frequency of revaluations depends upon the changes in the fair value of the living resources being revalued.
- If a living resource is revalued, the entire group of living resources to which that resource belongs, should be revalued. When grouping living resources, the nature and characteristics of the resources are considered.
- If the fair value of a living resource can no longer be determined because market-determined prices or values are not available and alternative estimates of fair value are unreliable, the carrying amount of the living resource will become its revalued amount as at the date of the last revaluation. An entity should then measure the resource using the cost model until the fair value becomes available. Specific disclosures are required in the notes.

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Summary of key principles

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Depreciation, impairment and transfers of living resources

- Living resources are depreciated and the depreciation charge recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- The entity assesses at each reporting date whether there is any indication that its expectations about the living resources' residual value and useful life have changed since the preceding reporting date, by considering a number of indicators. If such indication exists, the entity revises the living resource's expected useful life and/or residual value by applying GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- The depreciation method used needs to reflect the pattern in which the future economic benefits or service potential of the living resource is expected to be consumed by the entity. The depreciation method should be reviewed at least at each reporting date.
- At each reporting date, the entity should assess whether there is an indication that the living resource may be impaired, and if such an indication exists, the recoverable amount or the recoverable service amount of the living resource should be estimated.
- Transfers from living resources are made when, and only when, the particular asset no longer meets the definition of a living resource and/or is no longer within the scope of GRAP 110.

Derecognition of a living resource

- The carrying amount of a living resource is derecognised (a) on disposal; or (b) when no future economic benefits or service potential is expected to flow from its use or disposal. The gain or loss arising from the derecognition is recognised in surplus or deficit.
- Recognised living resources are presented as a separate line item on the face of the statement of financial position.

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Summary of key principles

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Disclosures for living and non-living resources

- The financial statements should explain the nature of an entity's custodial responsibility, including the legislation or similar means that establishes this responsibility over the resources. The entity can include a cross reference to information in other reports in its financial statements, when such reports are issued at the same time as the financial statements.

Disclosures for non-living resources

- For each group of non-living resources, the financial statements should include a description of (a) the nature and types of non-living resources for which the entity is responsible; (b) any liabilities and/or contingent liabilities arising from the resources; and (c) compensation received from third parties for resources given up if not included elsewhere in the financial statements.

Disclosures for living resources

- An entity discloses the measurement basis, depreciation method, useful lives and depreciation method used, a reconciliation between the gross carrying amount at the beginning and end of the period, and information in relation to revaluation where the revaluation model is applied for subsequent measurement;.
- Living resources borrowed from, or on loan to other entities.
- Living resources whose title is restricted, the nature and extent of restrictions on the entity's ability to use or sell the living resource, contractual commitments and compensation received from third parties for resources given up if not included elsewhere in the financial statements.
- A description of the nature and type of living resources, and key judgements and assumptions applied where an entity concludes that a living resource (a) does not meet the definition of an asset, or (b) meets the definition of an asset but the recognition criteria are not met.

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Proposed transitional provisions	
Proposed transitional provisions exposed for comment	<p>Following the approval of GRAP 110, the Board developed the proposed transitional provisions for its initial adoption of, i.e. ED 154 <i>Proposed Transitional Provisions for the Initial Adoption of the Standard of GRAP on Living and Non-living Resources</i>. ED 154 has a comment deadline of 31 July 2017.</p> <p>The transitional provisions proposed in ED 154 are as follows:</p> <ul style="list-style-type: none"> • GRAP 110 is applied retrospectively to living resources that are controlled by the entity on the effective date of the Standard. • Entities are not required to measure living resources for reporting periods beginning on or after a date within three years following the date of initial adoption of GRAP 110. • If the initial accounting for living resources is incomplete by the end of the reporting period in which GRAP 110 becomes effective, the entity is required to report provisional amounts in its financial statements for those living resources for which the accounting is incomplete. During the measurement period, the entity is required to retrospectively adjust the provisional amounts to reflect new information obtained. • When an entity takes advantage of the three year relief period, certain information needs to be disclosed in the financial statements on its progress towards measuring, presenting and disclosing living resources in accordance with GRAP 110.
Proposed effective date	
Proposed effective date of 1 April 2019	<p>The Minister of Finance is responsible for the promulgation of the effective date for GRAP 110.</p> <p>After consultation with the trilateral parties, the Board proposes an effective date of 1 April 2019 for GRAP 110. The proposed effective date is included in ED 154 to allow respondents to comment on the proposal.</p>

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