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MINUTES OF THE TECHNICAL COMMITTEE MEETING OF THE ACCOUNTING STANDARDS BOARD HELD ON 5 MARCH 2019 AT THE ASB'S OFFICES IN MIDRAND

CHAIRMAN L Bodewig

MEMBERS OF THE COMMITTEE

BOARD REPRESENTATIVES

F Abba

C Braxton

I Lubbe

V Ndzimande (left at 11:30)

REPRESENTATIVE OF THE AGSA

M Mentz

SECRETARIAT E Swart

EX OFFICIO

J Poggiolini	Technical Director
A Botha	Project Manager
T Tshoke	Project Manager
E van der Westhuizen	Project Manager

1. WELCOME AND APOLOGIES

Members were WELCOMED to the meeting by the Chairperson.

2. DECLARATIONS OF INTERESTS

Members were ASKED to declare if they had any interests in any of the agenda items being discussed. No declarations were NOTED.

MINUTES OF THE PREVIOUS MEETING

3.1 The minutes of the previous meeting were TABLED at the meeting.

3.2 It was AGREED that the word "included" in the 2nd bullet in paragraph 7.20, should be changed to "disclosed".

4. MATTERS ARISING

4.1 The Secretariat TABLED a memorandum at the meeting of the matters arising from previous meetings. The Secretariat NOTED that some of the matters will be resolved in future projects, some will be debated at this meeting, and oral feedback is required on the matters relating to the tribal authorities and the CET colleges.

4.2 Members QUESTIONED the following:

- When the review of the Prefaces will be done. It was INDICATED that it would take place in 2019, but in the next financial year.
- Whether the 'research paper' referred to for item 10.5 relates to the review of GRAP 16 and 17. The Secretariat INDICATED that it was the case.

The document will be updated to make this clearer.

Secretariat

TECHNICAL MATTERS

Accounting for Landfill Sites

5.1 The Secretariat TABLED the following at the meeting:

- Memorandum from the Secretariat.
- Minutes of the project group meetings held on 6 and 7 February 2019.
- Analysis of written comment on ED 166 Proposed Guideline on *Accounting for Landfill Sites*.
- Analysis of verbal comment on ED 166 Proposed Guideline on *Accounting for Landfill Sites*.
- Proposed Guideline on *Accounting for Landfill Sites.*

5.2 It was NOTED that at the close of the comment period on 30 November 2018, the Board received two comment letters. This included responses in the form of a questionnaire issued by the Department of Treasury of the Free State Province to which a number of entities responded. Verbal comment was received from preparers, auditors and consultants by way of workshops, roundtable discussions or other meetings.

5.3 It was NOTED that the comment received on ED 166, along with the proposed amendments to the Guideline was discussed at two project group meeting held during February 2019. Project group members recommended the proposed Guideline to the Technical Committee for its consideration.

Consultation process

5.4 The Technical Committee NOTED the comparison of stakeholders consulted against the approved project brief. It was NOTED that where face-to-face consultations were not undertaken with the stakeholders identified in the project brief, the stakeholders were invited to other engagements where the proposed Guideline was discussed.

5.5 It was NOTED that, as the function of landfill sites has been transferred from the Department of Water Affairs and Sanitation to the Department of Environmental Affairs (DEA), engagements were only held with DEA. DEA indicated that the policy unit of SALGA should be consulted as they provide support to municipalities on landfill sites. SALGA was consulted both during the development and exposure of the draft Guideline.

5.6 The Secretariat NOTED that it was of the view that key stakeholders were consulted and that sufficient consultation has been undertaken as part of the Board's due process.

5.7 The Technical Committee AGREED that stakeholders were given sufficient opportunity to provide comment on ED 166. The Technical Committee CONFIRMED the Secretariat's view that sufficient consultation was undertaken.

Secretariat

Depreciation of landfill sites

5.8 It was NOTED that ED 166 requested respondents' view on whether the land in a landfill could have a limited useful life. Comment was requested based on an example in GRAP 17 *Property, Plant and Equipment* that indicates that quarries and land used in a landfill may have a limited useful life.

5.9 It was NOTED that the majority of the respondents indicated that they do not depreciate land, but only consider land for impairment in terms of the applicable Standards of GRAP. It was NOTED that a minority of stakeholders indicated that, (a) as the value of the land deteriorates while used for waste disposal activities; and (b) because land will not have an alternative use after being used as a landfill site, the land is depreciated.

5.10 It was NOTED that the project group members concurred with the majority view that the land used in a landfill has an unlimited useful life, and that it cannot be consumed through use. Land used in a landfill should therefore not be depreciated.

5.11 The Technical Committee AGREED with the project group's view that land should not be depreciated and the amendment to paragraph 2.26 on the depreciation of land. The Technical Committee also AGREED with the additional guidance included in paragraphs 2.30A to 2.30E on impairment considerations.

Secretariat

5.12 It was NOTED that project group members recommended that the example in GRAP 17.69 should be reconsidered as part of the 2019 Improvements project. The Technical Committee AGREED with the recommendation.

Secretariat

Useful life and depreciation period of the landfill site asset

5.13 It was NOTED that respondents to ED 166 questioned the principle that (a) the significant parts, and the individually insignificant parts, of the landfill site asset should be depreciated over the useful life of the landfill site; and (b) that the parts' useful lives cannot exceed the useful life of the landfill site. Respondents noted that some parts of a landfill site asset may have an alternative use after the landfill site is closed, and that these parts may have a residual value.

5.14 It was NOTED that the Guideline has been amended to explain that:

(a) the useful life of the parts of the landfill site asset is determined based on the period over which the part is expected to be available for use;

(b) some parts of the landfill site asset may have a residual value; and

(c) the carrying value of the parts of the landfill site asset, that will be used to generate future economic benefits or service potential after closure of the site, should be reclassified type of asset when the landfill site stops its operations.

5.15 The alternative view from some respondents, i.e. that the useful life of the landfill site should be extended to the period during which the site is holding waste after its closure, was NOTED. These respondents were of the view that parts of the landfill site asset are used to receive waste during the operation of the landfill site, as well as to hold waste after the closure of the site. The useful life of the landfill site asset should therefore include the period that the site holds the waste.

5.16 The two alternative views regarding the useful life of parts of the landfill site asset was DEBATED. It was AGREED that the Guideline should clarify that the useful life should include the period that the landfill site asset holds waste, as the safe storing of waste is part of the asset's service potential. Paragraph 3.40 should be re-instated and amended to explain that the useful life of parts includes the period during which waste is held but cannot exceed the post-closure monitoring and inspection period. As a result, the guidance in paragraph 3.41A and 3.41B should be deleted.

Secretariat

5.17 It was also AGREED that example 1 should be amended to explain the useful life of parts of the landfill site.

Secretariat

Matters for clarification to be communicated in the Feedback Statement

5.18 It was NOTED that the Secretariat intends to communicate some of the matters raised by respondents through the Feedback Statement. These matters will then, at a future point in time, be included in the Frequently Asked Questions (FAQs).

5.19 Some members of the Technical Committee NOTED that the matters should rather be addressed in the Guideline and not in a Feedback Statement and/or the FAQs, as similar questions may arise when the Guideline is included in the GRAP Reporting Framework. It was RECOMMENDED that the matters noted from respondents during the comment process, could be explained in a basis for conclusions to the Guideline.

5.20 It was NOTED that a basis for conclusions is only developed for authoritative guidance to explain the Board's reasons for accepting or rejecting certain proposals. The basis for conclusions is also not part of a pronouncement.

5.21 After some consideration, it was AGREED that the guidance should be included in the Guideline and not in a Feedback Statement or the FAQs. In doing so, the following amendments were AGREED:

- the "Scope of the Guideline" should be amended to explain that the Guideline was developed based on the legislative requirements applicable to the management and operation of landfill sites. An entity needs to apply judgement when the facts and circumstances relating to its landfill sites are different to that explained in the Guideline; and
- Chapter 5 should include a discussion on accounting for the licence required to operate and close the landfill site.

Secretariat

Status and application of the proposed Guideline

5.22 It was NOTED that Guidelines are not authoritative unless the Board agrees that they should be included in the GRAP Reporting Framework. It was NOTED that the project group members recommended that the proposed Guideline should be included in the GRAP Reporting Framework.

5.23 The Technical Committee AGREED with the recommendation.

Secretariat

5.24 It was NOTED that respondents had different views on when the proposed Guideline should be included in the GRAP Reporting Framework. Some respondents requested the Board to include the Guideline in the GRAP Reporting Framework as soon as possible to address the divergent practice. Others indicated that the inclusion should be delayed to allow entities time to obtain the required information, and to align their accounting policies with the principles in the Guideline.

5.25 It was NOTED that project group members also had different views on the matter. Some project group members recommended a phased-in approach, while others recommended that the Guideline should be included in the GRAP Reporting Framework for financial periods commencing on or after 1 April 2020. Project group members also recommended that an assessment should be made of the inconsistencies between the Guideline and the Standards of GRAP before the Guideline is included in the GRAP Reporting Framework.

5.26 The Technical Committee NOTED that the GRAP 17 example should not prevent entities from accounting for landfills. It was DISCUSSED whether a footnote should be included in the Guideline to explain that (a) the guidance on the depreciation of land in GRAP 17 is different to the principle in the Guideline; and (b) that the guidance will be aligned as part of the Board's 2019 Improvements to the Standards of GRAP. It was AGREED that a footnote cannot be included to explain the difference, as Guidelines can only explain the existing principles in the Standards of GRAP.

Secretariat

5.27 It was AGREED that the memorandum to the Board should highlight that the Technical Committee had different views on when the Guideline should be included in the GRAP Reporting Framework. It was, however, RECOMMENDED that the inclusion of the Guideline in the GRAP Reporting Framework should be aligned with the effective date of any amendments arising from the 2019 Improvements project.

Secretariat

Guideline on Accounting for Landfill Sites

5.28 The following amendments were AGREED:

- *Objective of this Guideline*
    - delete the phrase "by preparers" in the second paragraph;
- *Scope of this Guideline*
    - amend the last paragraph "from landfill sites regulated in terms of the Waste Act <u>and related regulations, norms and standards</u>";

- *Chapter 2*
    - amend paragraph 2.13(b) “the ~~landfill site~~ <u>land</u>”;
    - reinstate “existing” in paragraph 2.16;
    - add the guidance in paragraph 2.30E earlier in the section dealing with impairment of land; and
- *Chapter 4*
    - delete “maintenance” in the fourth bullet in paragraph 4.27.

5.29 Some editorial comment was NOTED.

5.30 Subject to the matters agreed, the Technical Committee RECOMMENDED the proposed Guideline to the Board for its consideration.

Secretariat

Application of Materiality in Financial Statements

6.1 The Secretariat TABLED the following documents at the meeting:

(a) Memorandum from the Secretariat.

(b) Minutes of the project group held on 11 February 2019 (preparers).

(c) Minutes of the project group held on 22 February 2019 (firms).

(d) Analysis of written comment received.

(e) Analysis of verbal comment received.

(f) ED 168 on Proposed Guideline on *The Application of Materiality to Financial Statements*.

(g) ED 169 on Proposed Amendments to the Standard of GRAP on *Presentation of Financial Statements* (GRAP 1).

6.2 The Secretariat OUTLINED the background and history of the project.

Due process

6.3 It was NOTED that only four comment letters were received, and that the limited response could be due to the fact there were several Exposure Drafts published for comment in the same period.

6.4 The Secretariat PROVIDED an overview of the planned consultations set against the actual engagements with stakeholders.

6.5 The Secretariat HIGHLIGHTED that there were some engagements that were planned between November and December 2018 that did not materialise due to unavailability of stakeholders. These included provincial engagements with municipalities and municipal councillors co-ordinated by SALGA. It was added that since participation from municipalities was limited during the consultation period, the Secretariat, with the assistance of SALGA representatives, is working on arranging these sessions in March 2019. These sessions will be an opportunity to raise awareness about the proposed Guideline rather than to solicit comments.

6.6 The Secretariat EXPLAINED that, in its view, sufficient participation opportunities were provided to stakeholders, and that the due process was adequate.

6.7 A member NOTED that the Secretariat has attributed the limited responses to the fact that there were several Exposure Drafts on difficult topics issued in the same period. The members were concerned that while sufficient opportunities for stakeholders to participate were created – the Board needs to ensure that it obtains sufficient buy-in from its stakeholders during the consultation phase to assist with implementation.

6.8 The Secretariat EXPLAINED that financial instruments and materiality are not easy topics and participation was limited for that reason. The Secretariat added that even if more engagements were pursued, it does not believe that any new issues would be raised to change the course of those projects.

6.9 It was NOTED that the due process is an area that requires continuous assessment by the Board. In particular, it was observed that the issue is not necessarily the limited number of responses but rather that stakeholders generally do not have a basic understanding of the Board's proposals making it difficult for stakeholders to provide the appropriate level of feedback on those proposals.

6.10 It was SUGGESTED that the Board should consider piloting some of its proposals as part of the due process to give stakeholders an opportunity to apply the requirements before they become effective. In this way, the Board can proactively respond to the issue raised by stakeholders that they have difficulties applying the theory in practice.

6.11 The Technical Committee CONCLUDED that based on the considerations above, key stakeholders were consulted, and due process was followed.

Issues raised by respondents

6.12 The Secretariat NOTED that the overall feedback for the two Exposure Drafts was positive. While there were issues raised by stakeholders, there was support for the guidance.

<u>Specific matter for comment</u>

6.13 The Technical Committee NOTED the responses to SMC 1.

6.14 The Secretariat EXPLAINED that mixed views were expressed about the requirement to disclose materiality considerations in the financial statements. These views are consistent with some of the Board's considerations when the Exposure Draft was developed.

6.15 It was NOTED that the project group members were divided between (a) introducing the disclosure requirement and (b) not introducing the disclosure requirement. However, the project group members were of the view that it may be too soon for the Board to introduce a disclosure requirement if the guidance is meant to be non-authoritative. In addition, it was noted that the Board should consider encouraging entities to make the disclosures in their financial statements in the interim, in an effort to promote a different behaviour about materiality judgements and for practice to develop.

6.16 The Technical Committee CONCURRED with the project group members' views not to introduce the disclosure requirement at this time.

6.17 It was AGREED that the long-term view is to require these disclosures, and this would require GRAP 1 to be amended to reflect this requirement. It was noted that the amendment to GRAP may be considered in the next improvements project for the 2021 to 2023 cycle.

Secretariat

6.18 The Technical Committee SUPPORTED the following recommendations of the project group:

- Paragraph 3.6 of the proposed Guideline should be amended to highlight the practical benefits of disclosing management's materiality considerations.
- Example 1 of the proposed Guideline should be amended to emphasise the judgements made in the application section of the example.
- Paragraph .132 of GRAP should be left unchanged.

<u>General comments</u>

6.19 It was NOTED that the feedback was positive but indicated a general lack of understanding by preparers of the principles in the guidance.

6.20 The Secretariat EXPLAINED that the lack of understanding is not indicative of issues with the guidance itself.

6.21 It was NOTED that some of the issues did not result in specific actions, but where they did, the proposal was to make amendments to the guidance.

6.22 The Technical Committee AGREED that the key messages from stakeholders should be highlighted in the Feedback Statement, and that the proposed amendments to the guidance have addressed the issues raised by stakeholders.

6.23 Members DISCUSSED the issue about resolving differences in assessments between preparers and auditors.

6.24 Members NOTED that discussions between auditors and preparers to understand why those differences arose, and initiatives to educate preparers about the role of materiality in audits, may be useful. However, members were of the view that the issue is an audit matter.

6.25 The Chairperson NOTED that at the last PAG Forum, the role of materiality was discussed. Both the OAG and the AGSA representatives at the PAG Forum indicated that discussions about materiality will be continued following the approval of the guidance by the Board.

6.26 It was AGREED that the issue should also be highlighted in the Feedback Statement however this should not discuss matters that are not within the Board's mandate.

Final review of the proposed pronouncements

6.27 The Technical Committee CONSIDERED the summaries of written and verbal comment received.

6.28 Members SUPPORTED the Secretariat's proposed responses.

6.29 Members AGREED that no changes are required to the proposed amendments to GRAP 1.

6.30 Subject to minor editorial amendments, the Technical Committee AGREED with the proposed changes to the guidance to address stakeholders' comments.

6.31 It was AGREED that both pronouncements should be recommended to the Board for its consideration.

Secretariat

Finalisation of the proposed pronouncements

Re-exposure of the proposed pronouncements

6.32 It was NOTED that in accordance with the Board's policy, an assessment of whether re-exposure of the proposed pronouncement is necessary should be done on the basis of (a) amendments made to respond to comments received and (b) any new amendments by the IPSASB or IASB affecting the underlying pronouncements.

6.33 Members AGREED that:

- Re-exposure of the pronouncements will not be necessary as the proposed changes to address stakeholders' concerns were not substantive.
- The IASB's revision of the definition of material is substantive and should be addressed in a separate project to review the Conceptual Framework rather than as part of this project so as not to delay the publication of the proposed Guideline.

Status of the proposed Guideline

6.34 The Technical Committee CONSIDERED whether the proposed Guideline should be included in the GRAP Reporting Framework.

6.35 The Secretariat SHARED the project groups' considerations and recommendation that the proposed Guideline should not be included in the GRAP Reporting Framework.

6.36 Mixed views were NOTED from the members.

6.37 Members that *support the inclusion* of the proposed Guideline in the GRAP Reporting Framework NOTED that:

- The development of the guidance was to address a gap in literature and to respond to preparers' request for the Board to develop guidance on how to apply materiality in financial statements. As such, excluding the proposed Guideline from the Reporting Framework seems to undermine the importance of the guidance.
- It will be difficult to change preparers' behaviour, or even expect them to apply the Guideline if its application is not mandatory.
- In the private sector, the IASB's Practice Statement is ignored by entities as it is not mandatory. This is one of the reasons why the JSE requires listed entities to consider the Practice Statement.
- There are a number of areas in accounting that are subjective, but the Board has developed authoritative requirements to respond to those. Therefore, the argument that materiality is subjective, and guidance should not be mandatory is debatable.

- The guidance emphasises the importance of the interaction of qualitative and quantitative factors. There is a risk that if entities do not need to apply the Guideline there will still be divergence in practice with the assessment of qualitative and quantitative factors – those that do not apply the principles in the Guideline may assess materiality differently to those entities that apply the Guideline.
- No need to do additional work in the next steps to raise awareness if the Guideline is included in the GRAP Reporting Framework.
- Auditors will expect documentary support for management's representations about materiality.

6.38 Members that *did not support the inclusion* of the proposed Guideline in the GRAP Reporting Framework NOTED that:

- Guidelines are non-authoritative, and this one can be seen in the same light as the Conceptual Framework.
- If mandatory, the Secretariat will be expected to respond to queries about the application of the Guideline.
- The OAG could make it mandatory through its Treasury Regulations.
- Making it mandatory may result in application issues as the Board has not addressed the issue of the review of the principles in GRAP 3.

6.39 As members could not reach an agreement, it was RECOMMENDED that the Secretariat should provide an analysis with options for the Board to consider. These options should consider whether:

- To issue the Guideline as non-mandatory to respond to the current challenge that preparers have no guidance available on materiality. Revisit the status once the review of GRAP 3 has been finalised.
- Not to issue the Guideline until the review of GRAP 3 is complete.

<u>Proposed effective date of the amendments to GRAP 1</u>

6.40 Based on the analysis presented by the Secretariat, it was AGREED that the amendments to GRAP 1 would not require the Minister's approval but can be delegated to the Accountant-General.

6.41 It was AGREED that in line with the Board's policy the proposed effective date should be 1 April 2020.

6.42 It was RECOMMENDED that the Board approve the proposed amendments to be issued regardless of the Board's decision about the status and application of the Guideline.

Secretariat

Review of GRAP 104 on *Financial Instruments*

7.1 The Secretariat TABLED the following at the meeting:

(a) Memorandum from the Secretariat.

(b) Minutes of the project group meetings held on 13 February 2019.

(c) Summary of written comment received on ED 167.

(d) Summary of verbal comment received on ED 167.

(e) Marked-up text and appendices of ED 167.

Due process

7.2 The Secretariat EXPLAINED the consultation process, and that the stakeholders identified in the project brief were consulted. It was OBSERVED that there could have been more participation from the municipalities in the Secretariat's engagements. The Secretariat EXPLAINED that if more municipalities were involved in the process, they would likely have raised issues about implementation issues, particularly on the expected credit loss approach. Municipalities could raise these issues when the transitional provisions and effective dates are issued for comment.

7.3 Members ASKED whether the metropolitan municipalities and TVET colleges were involved in the discussions. The Secretariat INDICATED that some of the metropolitan municipalities were involved in the discussions. Entities that represent the TVET college interests were invited to the meetings.

7.4 It was AGREED that sufficient opportunity was provided to entities to comment.

General observations

7.5 The Secretariat INDICATED that there is a lack of understanding of the basics of financial instruments. As a result, many of the issues raised are implementation issues rather than matters of principle. Many of the proposed actions therefore do not result in amendments to ED 167, but relate to issuing communication or guidance (either by the Secretariat or the OAG). One of the key recommendations from preparers is that the OAG's GRAP Guide should focus on explaining the basic principles of financial instruments.

7.6 It was NOTED that the OAG is in the process of revising the Guidelines, and that it would be useful to look at the revision of the GRAP Guide and the Secretariat's proposed actions together.

7.7 Members AGREED with the Secretariat's proposed recommendations to issue a Fact Sheet explaining what a financial instrument is and what transactions are in the scope of GRAP 104. The types of transactions discussed would be based on a list of suggested transactions provided by respondents.

Scope

7.8 The Secretariat NOTED that there was support for changing the accounting treatment for financial guarantee contracts and loan commitments. Several discussions were held with preparers about whether letters of support are financial guarantee contracts, with the conclusion being that it would depend on the terms and conditions of the letters of support. As a result of the discussions, the Secretariat proposed amending paragraph AG1.6 and including a discussion in the basis for conclusions.

7.9 The Secretariat NOTED that questions were also raised about whether subordinated loans are financial guarantee contracts. These are not financial guarantee contracts, but because an entity alters its rights and obligations under the arrangement, there are issues to consider, e.g. classification as debt or equity instrument, as well as whether holders of subordinated loans still meet the SPPI test. As there is guidance already on these issues, no changes were proposed.

7.10 Members SUPPORTED the proposals.

Hedge accounting

7.11 The Secretariat INDICATED that respondents supported the Board's approach to hedge accounting but requested clarification about whether the absence of hedge accounting requirements meant that entities would not be permitted to undertake economic hedging. An explanation indicating that economic hedging is not precluded (assuming this is legally permissible) has been included in the basis for conclusions.

7.12 Members AGREED with the discussion in the basis for conclusions.

Recognition

7.13 The Secretariat EXPLAINED that, while there were no changes to the recognition requirements, certain principles were either confirmed or questioned by respondents during the comment process. This included the following:

(a) Confirmation that trade date accounting is appropriate.

(b) Whether entities are required to assess whether transfers received from a parent are contributions from owners and/or non-exchange revenue.

(c) Whether day 1 discounting conflicts with the principles in IGRAP 1.

7.14 The Secretariat EXPLAINED the following:

(a) No action is required for (a) as this confirms previous decisions.

(b) For (b), the assessment of whether a transfer is a contribution from owners or non-exchange revenue is already a requirement of GRAP 23 *Revenue from Non-exchange Transactions (Taxes and Transfers).*

(c) There is no conflict in (c) as with day 1 discounting all revenue is recognised, the transaction amount is just separated between revenue and interest.

7.15 Members AGREED that no specific action is required for (a) and (b), but that (c) should be explained in an FAQ or the Fact Sheets to make this clear. It could potentially be combined with other FAQs dealing with day 1 discounting.

Secretariat

Classification of instruments

7.16 The Secretariat EXPLAINED that respondents generally supported the classification principles. Respondents identified specific areas where implementation guidance is needed, and this suggestion will be communicated with the OAG.

7.17 The Secretariat NOTED that respondents had opposing views about the classification of concessionary loans (particularly those with contingent repayment features):

- View #1: Entities that provide concessionary loans are interested in the amounts advanced, the subsidy component, and what will be collected. They would not be interested in the fair value of the loan at each reporting date as they do not manage the exposure of these loans to market risk. These respondents were of the view that all concessionary loans should be measured at amortised cost.

- View #2: Concessionary loans that are exposed to risks outside of a basic lending arrangement should be measured at fair value as this measurement best reflects the terms and conditions of the contract. Concerns were also raised about (a) the complexity of an 'expected credit loss' (ECL) approach for instruments where the repayment terms are contingent on a number of factors, (b) making rules for the measurement of certain transactions, and (c) being able to define concessionary loans in a way that precluded entities from abusing the ability to measure specific loans at amortised cost.

7.18 The Secretariat SUPPORTED view 2 as this is the best conceptual answer for certain concessionary loans. As this is the view expressed in ED 167, no change was proposed.

7.19 Members SUPPORTED the proposal.

Retention of the use of 'cost' for investments in residual interests

7.20 The Secretariat EXPLAINED that respondents generally supported the principle to allow cost when there is no reliable measure of fair value, but some auditors expressed concern about the potential misuse. Two suggestions were made to overcome this issue:

- Suggestion #1 – Limit the use of cost to investments that have a significant service potential component.
- Suggestion #2 – Require disclosure about why fair value could not be determined reliably.

7.21 The Secretariat NOTED that it would be difficult to identify when investments have a significant service potential component but agreed that enhanced disclosure would be useful to users of the financial statements.

7.22 Members SUPPORTED the additional disclosures.

7.23 The Secretariat INDICATED that respondents had raised questions about whether the use of different techniques to measure fair value is acceptable. In response to these questions, additional examples have been added to Appendix C to illustrate potential techniques that could be used.

7.24 Members AGREED that the examples are helpful and supported their inclusion.

Measurement

7.25 The Secretariat EXPLAINED that a number of application/implementation issues were raised on the measurement principles which can be addressed through the Fact Sheets, FAQs, or guidance from the OAG.

7.26 The Secretariat INDICATED that some respondents raised concerns about the identification of components of concessionary investments. The guidance in ED 167 indicated that only the terms and conditions of the arrangement should be examined to identify if any non-exchange component exists. Respondents were of the view that substance over form should be considered. As substance over form is an overarching concept in the preparation of the financial statements, the Secretariat proposed amending the requirements in paragraph AG5.26.

7.27 Members SUPPORTED the proposed actions, in particular, the proposed action for the treatment of interest on credit impaired instruments once their status changes or the interest is collected. It was CONFIRMED that the FAQ would express the IFRIC's final decision on the matter.

7.28 The Secretariat INDICATED that some preparers represented at the project group raised concerns about the practical challenges of implementing the new impairment model, particularly calculating interest on different bases, depending on whether financial assets are impaired. These concerns included the following:

- The size of some entities' debtors' books (e.g. municipalities), and that they would need to undertake these additional interest calculations outside of the sub-ledger and general ledger (e.g. by using Excel). This meant that there is a high risk of error.
- How an entity would assess whether debtors are impaired and the interest calculation changed. Some entities indicated that they currently use a simple provision matrix based on payment history per service. The proposed changes to GRAP 104 would require more factors to be considered and would require significant changes to current practice.
- Entities would be required to keep track of whether debtors were previously impaired so that they can assess whether the situation has reversed and whether any interest needs to be reversed to the impairment loss in the statement of financial performance.

7.29 The Secretariat INDICATED that the current matrices applied by municipalities seem to be relatively simplistic even under the current impairment model, and that this is an area that seems to require improvement. For the treatment of interest, the Secretariat INDICATED that there are two potential options:

- Change the basis on which interest is calculated for receivables and indicated that the gross basis is used in all instances.
- Retain the requirements in ED 167, but ask municipalities to pilot the impairment model while the transitional provisions are issued for comment and address any implementation issues through changes to the transitional arrangements and/or effective date.

7.30 Members DISCUSSED the following:

- There was no support for piloting the transitional provisions without being clear how changes could be made to GRAP 104 if entities found the implementation onerous. Transitional provisions and the effective date may not resolve the entities' issues.
- Whether entities should be allowed a policy of using the gross or the net basis of interest recognition. This is not desirable as the Board has actively been reducing accounting policy options for financial instruments.
- Whether it should be explained to entities that the entry is a financial statement adjustment and that systems need not be changed. Entities observed that the calculation would need to be performed outside the system with great cost and effort, and a high risk of error.

- Some members were of the view that only reflecting the net interest is important given the current economic environment. In their view recognising interest on the gross basis may mislead investors about potential revenue and its collectability.

7.31 While members SUPPORTED the recognition of interest on credit impaired debtors on a net basis from a conceptual perspective, they were of the view that if entities cannot implement this requirement, then a practical solution needs to be found. Members DISCUSSED whether there could be an analogy with IGRAP 1 and that all revenue should be recognised on a gross basis. The Secretariat EXPLAINED that there may be a difference between accountability for actual cash to be collected for goods and services provided versus interest recognised using a specific accounting methodology. The actual interest that can be collected would be based on specific legal requirements.

7.32 On balance, members AGREED that interest on credit impaired receivables should not be calculated on a net basis. A rule should be made and included in the revised GRAP 104 indicating that all interest on receivables should be recognised on the gross basis. Members were of the view that simplifying the requirements would (a) allow entities to focus on getting the expected credit loss approach correct, and (b) not impact the information available to users of the financial statements as the full interest revenue would be recognised with a corresponding impairment loss. It was AGREED that the revisions to ED 167 to reflect this decision should be presented to the Board for its consideration.

Secretariat

Derecognition

7.33 The Secretariat INDICATED that no comments were raised on the derecognition requirements in ED 167.

Presentation and disclosure

7.34 The Secretariat NOTED that the following comments were received on the presentation and disclosure requirements in ED 167:

- Although respondents were of the view that the guidance on set-off was helpful, it was unlikely that the legal right of set-off exists in the South African environment. A discussion was included in the basis for conclusions to explain the situation in the local environment.
- Respondents did not support the disclosure of the nominal values of credit impaired concessionary loans. The disclosure requirement was proposed for deletion.
- Some respondents believed that making a statement about the sufficiency of collateral held would be useful to users, while others did not support the disclosure as the extent of any collateral provided would depend on the entity’s lending strategy and pricing. Based on support for the latter view, the disclosure requirements were amended.
- Questions were raised about whether gains and losses should be presented on a gross or a net basis. ED 167 indicates that net gains and losses are presented per category of financial asset. As the principles are proposed, no action was proposed.

- Respondents noted difficulties in separating receivables into exchange and non-exchange transactions. The IPSASB is re-considering the distinction between exchange and non-exchange transactions, and that developments on the project would be monitored.

7.35 Members SUPPORTED the proposed actions.

7.36 The Secretariat NOTED that the project group comprising the technical specialists raised concerns about the consequential amendments to GRAP 1 *Presentation of Financial Statements* (paragraph .96(a)) The project group debated whether there should be separate presentation of interest revenue calculated using the effective interest method. The question was raised in the context of the relevance to users, as well as the fact that interest on statutory receivables is calculated on a nominal basis. Two views were expressed:

- View #1: It is important for users to understand what interest revenue was accrued by the entity and the distinction between the quantum of revenue recognised using the different bases is unimportant. Proposal to merely indicate what proportion of revenue relates to interest.
- View #2: As the rights to charge interest arise from two different arrangements, i.e. contracts and legislation, the separation is important. Proposal to modify the disclosure requirement to distinguish between revenue calculated using the effective interest method and another method.

7.37 The Secretariat INDICATED that it supported view #1 as it is unlikely to be relevant to users what amount of revenue is calculated using each basis. The accounting policies should however explain to users the two different bases used and the terms and conditions of the transactions.

7.38 Members SUPPORTED the proposal.

Comparison with IPSAS 41 on Financial Instruments

7.39 The Secretariat NOTED that it had reviewed the key principles in the Standards and that they were similar for the most significant decisions made (particularly those regarding concessionary loans and credit impaired receivables). This position would be different with the decision to require the gross calculation of interest in all instances for receivables.

Other considerations

7.40 The Secretariat INDICATED that there were amendments made to IPSAS 41 and GRAP 36 in December 2018, as a result of changes made to the underlying IFRS Standards. As these are minor changes, the Secretariat proposed including the amendments in ED 167 without issuing them for comment.

7.41 Members SUPPORTED this proposal given the nature of the changes.

Next steps

7.40 The Secretariat EXPLAINED the next steps in the project, particularly the process to develop the transitional provisions, and to modify and review the Fact Sheets.

7.41 The Secretariat INDICATED that the project initially included a review of the requirements of GRAP 108 *Statutory Receivables.* The Secretariat NOTED that the recommendation of the project groups was to delay any changes to GRAP 108 until GRAP 104 had been implemented.

7.42 Members SUPPORTED this view.

7.43 Subject to the changes agreed at the meeting, the Technical Committee RECOMMENDED the changes to ED 167 to the Board for its consideration.

Secretariat

Transitional provisions for CET colleges

8.1 The Secretariat TABLED the following at the meeting:

(a) Memorandum from the Secretariat.

(b) Analysis of written comment received on ED 172.

(c) Marked-up version of ED 172.

8.2 The Secretariat NOTED that it had consulted with, or aided the consultation with, parties affected by ED 172.

8.3 The representative of the National Treasury INDICATED that there had been no engagement between the Ministers of Finance and Higher Education and Training on the matter.

8.4 The Secretariat INDICATED that based on comments received, terminology in ED 172 had been standardised to refer to “acquisition date” as opposed to “transfer date”.

8.5 Members SUPPORTED the change. It was QUESTIONED whether guidance should be provided indicating which version of the Standards should be applied. The Secretariat EXPLAINED that this is already dealt with in a FAQ.

8.6 Members RECOMMENDED the proposed Directive to the Board for its consideration.

Secretariat

Application of Standards of GRAP by Public Sector Entities that Apply IFRS Standards

9.1 The Secretariat TABLED the following at the meeting:

(a) Memorandum from the Secretariat.

(b) Minutes of the project group meeting held on 22 February 2019.

(c) Proposed Directive on *The Application of Standards of GRAP by Public Entities that apply IFRS Standards.*

(d) Proposed Invitation to Comment (ITC) on *The Application of Standards of GRAP by Public Entities that Apply IFRS Standards.*

9.2 It was NOTED that a follow-up meeting was held with the Financial Reporting Technical Committee (FRTC) in November 2018 to discuss the proposed Directive. At this meeting, the FRTC indicated that, in its view, the users of the financial statements and the use of the concept of service potential, are clear points of departure between the GRAP Conceptual Framework and the IFRS Conceptual Framework. The FRTC recommended that the proposed Directive should (a) clarify these differences; and (b) indicate that an entity needs to consider the users of its financial statements and their information needs, in assessing whether a conflict exists between the two conceptual frameworks.

9.3 It was NOTED that the amended draft Directive - incorporating comment from the FRTC - was circulated to the FRTC members for comment. No comment was received by the due date of 21 February 2019.

9.4 It was NOTED a project group meeting was held on 22 February 2019. At this meeting, project group members recommended the proposed Directive and accompanying ITC to the Technical Committee for its consideration.

9.5 It was NOTED that during the project group meeting, some members noted that their previous concern on the Board's authority to determine what constitutes IFRS, remains. These members noted that, in their view, when IFRS entities are required to consider the guidance in the proposed Directive, it could result in them preparing financial statements using an "IFRS plus" reporting framework. This could impact their fair presentation compliance with IFRS Standards.

9.6 It was NOTED that the Secretariat is of the view that the proposed Directive will not establish an "IFRS plus" reporting framework. The Directive merely explains the considerations when using a Standard of GRAP to formulate an accounting policy in the absence of an IFRS Standard. The guidance in the Directive is based on the principles in IAS 8 that allow entities to consider the most recent pronouncements of other standard-setting bodies in the absence of an IFRS Standard.

9.7 The Technical Committee AGREED with the Secretariat's view that considering the principles in the Directive will not result in an "IFRS plus" reporting framework.

Secretariat

Proposed Directive on The Application of Standards of GRAP by Public Entities that apply IFRS Standards

9.8 The following amendments were AGREED:

- paragraph .05 should include a reference to IAS 8 paragraph .10;
- paragraph .11 should be amended to "consider ~~the Standards of GRAP or~~ pronouncements of other standard-setting bodies, including Standards of GRAP"; and
- BC15 should be amended to "When users are only interested in making…".

Secretariat

9.9 Subject to the matters AGREED, the Technical Committee RECOMMENDED the proposed Directive and accompanying ITC to the Board for its consideration.

Secretariat

Consultation

9.10 It was NOTED that, in line with the current timetable, it is anticipated that the Board will finalise the proposed Directive in the third quarter of 2019 if approved as an Exposure

Draft at the March 2019 Board meeting. In meeting this deadline, the Secretariat recommends a three-month comment period, with comment due by the end of July 2019.

9.11 The Technical Committee AGREED with the comment date and period.

Secretariat

Application of GRAP by small entities

10.1 The Secretariat TABLED the following at the meeting:

(a) Memorandum from the Secretariat.

(b) Analysis and responses to questionnaire.

(c) Approved project brief (for information purposes)

10.2 The Secretariat EXPLAINED background to the project and SHARED the results of the initial phase of the research.

10.3 The Secretariat EXPLAINED the criteria proposed to assess the different options to progress the project and what the options would entail.

10.4 Members NOTED the following regarding the results of the research:

- The criteria to classify entities as small may also need to consider if an entity is controlled, not just whether an entity is a wholly owned subsidiary.
- It may be difficult to separate the legislative environment from the criteria to assess entities as small; some entities should not even be required to apply Standards of GRAP, but it would require a change in legislation.
- It may be necessary to consider that government is moving towards consolidating entities based on recent public announcements and that if the project only focusses on small entities, they may no longer exist when the project is finalised.
- As entities struggle with the basics, adding another framework to the environment which already includes IFRS, IFRS for SMEs, Standards of GRAP and MCS, would not resolve the challenges that exist.
- There is an overlap with the research on reporting information to the public, as simpler ways of presenting information in needed.
- It will assist preparers if guidance is available in one place, and not spread across various documents issued by different stakeholders.
- It may be necessary to identify “quick wins” through current or upcoming projects to assist preparers.
- The role of the ASB would need to be carefully considered, as the challenges mostly relate to human resources, and the technical guidance needed may overlap between the mandate of the ASB and the OAG.
- Standards of GRAP have a strong brand and its integrity should be protected in the option chosen to progress the project.

10.5 The Technical Committee PROPOSED the following to the Board to progress the project:

- After debating the various proposals, on balance Committee agreed that developing guidance would be the most appropriate response to the challenges, given the Board's mandate and the current financial reporting environment.
- The next phase of the project should entail research to unpack this proposal further, so that a final proposal can be made to the Board in 2020. The research should include a meeting between the trilateral parties, to establish the roles of the ASB and OAG in providing guidance to small entities. Auditors should be included as small entities often rely on auditors for guidance.
- A Research Paper should be developed with the results of the initial phase of the research as it would be useful to communicate the information gathered with stakeholders.

Secretariat

EMERGING ISSUES

11.1 The Secretariat TABLED a memorandum at the meeting outlining progress on emerging issues reported at the last meeting and provided an oral update on new issues.

Directive 12

11.2 The Secretariat INDICATED that since drafting the memorandum, a meeting was held between the OAG, AGSA and the Secretariat to discuss two requests made to the National Treasury regarding the application for Directive 12. Two entities had done the self-assessment in Directive 12 with the result indicating that they should apply Standards of GRAP. Requests were made to the National Treasury to apply IFRS Standards. The requests focused on the effect of applying GRAP on their lenders, and the potential cost implications of operating two reporting systems.

11.3 The Secretariat EXPLAINED that it had indicated to the OAG and AGSA that, in analysing these requests, it was important to consider what information is provided to all the affected users of the financial statements and not just the lenders. If it is clear what information is available using GRAP and IFRS and understanding the differences, this would be helpful in making the decision.

11.4 Members AGREED with the view expressed by the Secretariat.

Non-current assets (and disposal groups) held for sale

11.5 The Secretariat NOTED that it had discussed the potential reinstatement of the requirements for non-current assets held for sale and disposal groups during the consultation on the work programme for 2021 to 2023. There was no support expressed for re-instating these requirements for the specific scenarios raised with the Board. Respondents did not believe that they would meet the requirements in IFRS 5.

Tribal authorities

11.6 The representative from the National Treasury PROVIDED an overview of the status regarding the reporting framework for tribal authorities. There had been consultation with the Provincial Accountants-General and the draft needed to be revised based on their input. The National Treasury would consult with the AGSA, COGTA and more widely on the proposed framework. Transitional arrangements would need to be developed for the first-time adoption of the requirements by traditional authorities.

11.7 It was QUESTIONED whether the proposed reporting framework addressed concerns raised by the Public Protector on traditional authorities. It was INDICATED that this would need to be reviewed.

Western Cape Department of Agriculture

11.8 It was INDICATED that there is nothing to report on this matter.

GRAP 109 Accounting by Principals and Agents

11.9 A member INDICATED that questions were raised about whether transactions undertaken on behalf of the revenue fund, and/or where funds needed to be surrendered to the revenue fund, would result in entities being 'agents' of the revenue fund.

11.10 The Secretariat NOTED that this is discussed in the definitions section of GRAP 109.

ADMINISTRATION

Work programme

12.1 The Secretariat TABLED the updated work programme and the report on the achievement of the quarterly targets.

12.2 The Secretariat NOTED that the work programme was updated after the decisions at the last meeting, as well as the following:

- Moving timelines on the projects on the reporting to citizens and GRAP for small entities to accommodate the maternity leave of a staff member.
- The impending finalisation of the amendments to GRAP 104 meant two additional documents would be issued during 2019/20.

Based on these changes, a revised APP was submitted to the National Treasury.

12.3 It was QUESTIONED whether the projects could be contracted out to another party. The Secretariat INDICATED that there is no funding available to do this, nor is this ideal given the nature of the projects.

12.4 Members AGREED with the proposed changes.

Performance to date

12.5 The Secretariat NOTED that, based on the recommendations to the Board at this meeting, it is likely that all the documents planned for the year would be issued. Two additional documents will be issued for the year.

INTERNATIONAL STANDARD SETTING ACTIVITIES

13.1 The Secretariat TABLED the March 2019 meeting highlights.

13.2 The Secretariat INDICATED that ED 67 issued by the IPSASB had been issued concurrently for comment locally. ED 67 deals with other 'social benefits' provided in kind. Based on the proposals, the Secretariat did not believe that the Technical Committee or Board needed to be involved in commenting on ED 67.

13.3 Members SUPPORTED this proposal.

CLOSING REMARKS

The remaining meeting dates for 2019 were NOTED. Members were THANKED for their participation and the meeting was ADJOURNED at 15:00.

Prepared by:	**J Poggiolini**	**14 March 2019**
Reviewed by:	**L Bodewig**	
Issued:		

Signed: ____